Leveraging the AO Way

AO World Plc
Annual Report and Accounts 2019

Contents

How we performed in 2018/19

£902.5m
Group revenue up 13.3%

£(15.2)m
Operating Loss reduced by 6.5%

£27.4m
UK Adjusted EBITDA up 20.9%

£(0.4)m
Group Adjusted EBITDA losses reduced by 87.6%

Operational Highlights
- Successful acquisition of Mobile Phones Direct Ltd
- Maintained exceptional customer service whilst growing volumes and focusing on developing new competencies
- Building of new plastics plant underway

Our purpose is to have the happiest customers by relentlessly striving for a better way.

Leveraging our competencies is being actioned at real pace and we're already making progress.

AO,
let's go.

John Roberts
Founder and Chief Executive Officer

AO at a glance. Who we are and how we work.

We sell electricals in the UK, Germany and the Netherlands and deliver them via our in-house logistics business and carefully selected third parties. We serve our customers brilliantly, guided by a simple philosophy of treating every customer like they are our gran. This even applies to our growing trade (B2B) business.

We also provide ancillary services such as the installation of new and collection of old products and offer product protection plans and customer finance. Via our state-of-the-art facility we are also able to carry out the recycling of appliances that have reached the end of their lives.

We have a unique and vibrant culture where we make our decisions based on what would make our mums proud and a team of people who genuinely care more about our business and its customers.

Where we operate

We operate across three countries: the UK, Germany and the Netherlands, offering a broad range of electricals and related services.

See page 49 for further information on the trends, insights and opportunities in our markets.

Our scalable business model

Our business model is the result of years of expertise and investment in delivering the best service for our customers. This has resulted in the development of core competencies which provide us with a platform for the execution of our purpose: to have the happiest customers by relentlessly striving for a better way.

Our business model and proposition is scalable and provides us with the ability to enter new countries and vertically integrate our supply chain where we can leverage our core competencies.

See pages 28 to 30 for further information on how we create and capture value.

Our strategy

Customers
Drive and differentiate a customer-first proposition through innovation

Competencies
Build and leverage structural advantage provided by our eco-system ("the AO Way")

Culture
Inspire and develop our people to enable our success

These strategic pillars will be applied throughout all countries in which we operate.

See pages 20 to 25 for information on progress against our strategic objectives and how our culture is driving us forward.

Our investment case:

1. A leading position in the online electricals market

2. Compelling customer proposition

3. Control of the end-to-end customer experience

4. Strong culture

5. Multiple growth opportunities; an eco-system we can leverage "the AO Way"

Moving into mobile makes sense: people live their lives through their phones.

AO, let's go.

We have acquired Mobile Phones Direct

Mobile Phones Direct (MPD) has grown to become one of the UK's leading online mobile phone retailers offering contracts with each of the four major networks in the UK as well as providing handsets from all the leading brands and a range of associated services including trade-in and mobile phone insurance. The business currently operates two online brands, mobilephonesdirect.co.uk and smartphonecompany.co.uk.

MPD's mission is to become the UK's leading online destination for mobile, by making it easy for customers to compare and buy the best deals on all the latest smartphones. The relentless focus on customer experience has led to numerous awards within the mobile phone industry, including most recently the "Best Online Retailer" at the Mobile News Awards in 2019 and the USwitch Mobile Retailer of the Year 2019.

An opportunity for AO

We saw opportunities and synergies with our core AO business that could be leveraged following an acquisition. MPD is a successful standalone business, but by utilising AO's market leading logistics and recycling proposition, innovative finance proposition and leveraging our e-commerce competencies we will be able to grow the business further.

Not only that, but the market is one that is shifting considerably, especially as the 5G rollout comes to the UK which will further drive sales in smart and connected "Internet of Things" devices, alongside the changing consumer trends to online purchasing and buying patterns. The combination of MPD and AO allows us to take advantage of this customer first, connected landscape for years to come.

The combination of MPD's mobile network relationships, connectivity capability and deep knowledge of the mobile market with AO's scale, brand and substantial customer base creates an immense platform for future growth. Importantly, it also means that we can deliver even greater value to our customers and partners moving forward.

Richard Baxendale
Managing Director, AO Mobile.

Next steps for Mobile

We have some hugely exciting plans for MPD over the coming years. We will launch AO Mobile, as an additional brand to "MobilePhonesDirect" and the sharing of information and knowledge allows the business to capitalise on the strength of our customer network, ensuring that customers continue to receive the best service in the market. Furthermore, plans are in place to roll out additional insurance, protection and finance options for AO Mobile.

Innovation and technology will be a key focus over the coming years and building upon the already quality offering ensures that we position ourselves as a leading retailer for years to come.

Mobile is a key category for AO to get involved in; we believe the changing dynamics and current structural challenges in the mobile market provide us with significant opportunities. The touch points with customers the contract mobile market presents are important for AO. We've learned our lessons from our Germany launch that starting from the ground up is hard. MPD presented us with an opportunity to build on existing strong relationship with the networks, an impressive platform and a strong team; it gives us another business stream to which we can apply our competencies (particularly in e-commerce).

John Roberts
Founder and CEO, AO

It's never been done like this before: but we see rentals as an important part of our future.

AO, let's go.

We are trialling a rental proposition

At AO, we believe that everybody should have access to reliable, quality electricals and we are on a mission to make it affordable.

Some customers prefer to rent rather than buy while others have no other alternative. For the latter group of customer they may be subject to high interest rates, late payment penalties and mandatory insurance. We think we've got a solution that's good for all customers and good for AO.

Our business model means that we are able to offer a basic appliance from just £2 a week, because rented appliances can leverage many aspects of our competencies.

We are also trialling a retail rental proposition which we can scale and offer to all ao.com customers, expanding the range and models we can offer.

Our Housing Association commitment:

A brand new appliance
You'll get a washing machine fresh from our warehouse. We'll even upgrade you to a new one after five years.

No hidden costs
We're offering a simple monthly payment of £8.67. This includes delivery, installation and recycling of your old appliance.

Hassle-free
Leave it up to us to keep your appliance in full working order. We'll always repair or replace if something goes wrong.

Cancel at any time
If you no longer need your appliance, it's free and easy to cancel your contract. We'll even pick it up for you.

The AO rental model is an amazing example of not only the potential of our eco-system but also the AO Culture; we are making decisions which would make our mums proud.

John Roberts
Founder and Chief Executive Officer

Trade customers deserve the same great service we give to individuals.

AO,
let's go.

We created AO Business

Over the years, AO has transformed the white goods industry by creating a compelling, customer-centric online retail proposition that shook up the industry and created a new benchmark for selling electricals.

Trade customers have always been part of our customer mix, whether AO was supplying retailers with white-labelled online solutions, fulfilling their logistics requirements, or working with insurance providers to replace electricals.

It's given us a clear understanding that, just like individual consumers, great service is fundamental to a business's success.

How we will use this to push on

In 2018, we applied that knowledge to leverage our model into the trade market by creating AO Business. Whilst there is competition in the B2B market, none of our competitors have our business model, our end-to-end solutions and the focus we have on customer service.

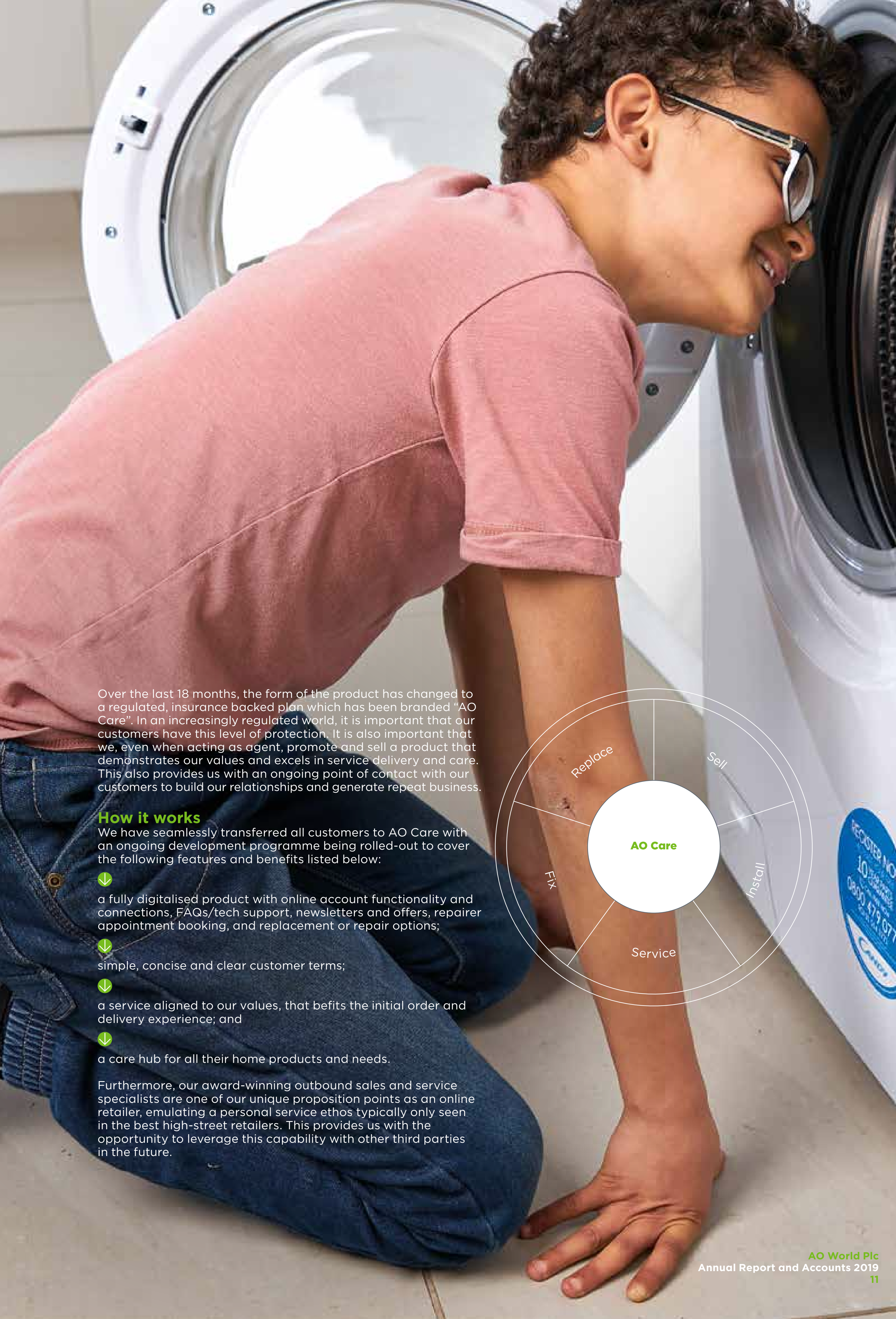
We've created dedicated sales and accounts teams with specialist knowledge of the markets they serve who invest time understanding the needs of their clients to ensure they get the best possible solutions. Consequently, over the last 12 months, we've worked hard to attract many new business clients, across a variety of industries. These include Homebuilders, Social Landlords and Charities, whilst we have also continued to grow our relationships with Insurance Providers.

A better way to care for our customers' products, for as long as is needed.

AO,
let's go.

We launched AO Care

For many years AO has been proud to work as an agent of D&G to offer our ao.com and third-party website customers a product protection plan to provide them with peace of mind that their new product could be repaired or replaced if required. Whilst many of the electrical appliances sold by AO typically come with 12 month manufacturer warranties, they do not necessarily protect against damage caused by accidents or wear and tear. Unlike many other warranties, the pay-monthly protection plan we offer can last indefinitely, well beyond the manufacturer's warranty period and beyond the average life of the products.



Over the last 18 months, the form of the product has changed to a regulated, insurance backed plan which has been branded "AO Care". In an increasingly regulated world, it is important that our customers have this level of protection. It is also important that we, even when acting as agent, promote and sell a product that demonstrates our values and excels in service delivery and care. This also provides us with an ongoing point of contact with our customers to build our relationships and generate repeat business.

How it works

We have seamlessly transferred all customers to AO Care with an ongoing development programme being rolled-out to cover the following features and benefits listed below:

- a fully digitalised product with online account functionality and connections, FAQs/tech support, newsletters and offers, repairer appointment booking, and replacement or repair options;
- simple, concise and clear customer terms;
- a service aligned to our values, that befits the initial order and delivery experience; and
- a care hub for all their home products and needs.

Furthermore, our award-winning outbound sales and service specialists are one of our unique proposition points as an online retailer, emulating a personal service ethos typically only seen in the best high-street retailers. This provides us with the opportunity to leverage this capability with other third parties in the future.

The Strategic Report defines how we will leverage our culture and infrastructure to drive growth intelligently and sustainably.

In this section

Further growth and a renewed mindset.

Geoff Cooper
Chairman

All consumer-facing companies are having to navigate uncertain times and AO is no different. Against the ongoing backdrop of low consumer confidence and a continuingly competitive market, particularly in the UK, we have continued to grow our businesses and leverage our competencies.

We take confidence from our research, which continues to broadly show that our proposition in each business is preferred to those of our competitors.

Group revenue increased by 13.3% to £902.5m. Year-on-year UK revenue was up 10.1% to £749.3m (up 5.7% on a like-for-like basis* when excluding revenues from our newly acquired mobile phones business ("MPD")). Revenue for our Europe business was £153.2m/€173.3m, up 32.2% year-on-year on a constant currency basis.

Group Adjusted EBITDA losses for the period improved to £0.4m (2018: £3.4m), with the UK growing by 20.9% and by 14.3% (excluding MPD). Our Europe business increased Adjusted EBITDA losses by 6.5% year-on-year on a sterling basis reflecting cost pressures and from reconfiguring driver scheduling arrangements and loss of momentum in improving product margin. Group operating loss for the year was £15.2m (2018: £16.2m).

Key to our growth is our culture and the passion we have for customers and for amazing service. Our teams across the business streams in retail, trade, financial services, logistics, and recycling are dedicated to providing exceptional service and this has enabled us to significantly strengthen the Group, with numerous examples described in the Strategic Report. Our outgoing CEO, Steve Caunce, led the effort to build the essential infrastructure to support a bigger and broader Group and we now have the "eco-system" of opportunities to leverage.

We acquired Mobile Phones Direct Limited towards the end of the 2018 calendar year and have been busy integrating this into the Group. It is a great and profitable business which can be made even better by leveraging our e-commerce expertise as a Group and we look forward to launching an AO Mobile branded e-commerce platform.

Whilst our UK businesses are in good shape, the Europe business is not where we want it to be and we are working on a review of how we leverage the proven UK model into other markets, and a specific action plan for Germany. Since his reappointment, John has completed a review of the Europe business and made changes to the senior leadership overseas to drive improved product margin, focus on relevant and cost-effective acquisition channels, and reduce costs to deliver, whilst plugging in UK expertise gained over a number of years.

As previously reported, Steve Caunce stepped down as CEO at the end of January and a reinvigorated John Roberts was appointed and reassumed the reins. His priorities are described in his CEO Report and I am pleased with the progress we are already making. Steve has been instrumental in taking the business to where it is today and both John and I thank him for his vast contribution over the years.

We have made two additional appointments to the Board this year and welcome Shaun McCabe and Luisa Delgado. Both have significant consumer-facing, online experience; Shaun's financial background is strengthening the skill set of the Audit Committee and Luisa's international experience will be invaluable as we look to accelerate on our journey to profitability in Europe.

Brian McBride has indicated he will not offer himself for re-election at this year's AGM. We thank him for his contribution over the past five years.

In summary, the Group has continued to make good progress over the year. We have a unique culture at AO and, with a renewed energy and mindset, I look forward to a bright future for AO.

Geoff Cooper
Chairman
3 June 2019

* UK like-for-like revenue equates to £719.3m, which excludes revenue from MPD (2018: £680.8m)

AO is the success it is because of our willingness to innovate and move forward; to always challenge the norm.

John Roberts
Founder and Chief Executive Officer

Living the AO Way.

John Roberts
Founder and Chief Executive Officer

This, my first annual statement as Chief Executive for two years, is a welcome opportunity to review the past 12 months and set out a reinvigorated vision for AO's future.

First, the financial progress. We've delivered double digit revenue growth in the UK and achieved over 30% in Europe. Adjusted EBITDA in the UK has improved by over 20%. The UK result was achieved against an ongoing tough trading environment and includes three months' contribution from Mobile Phones Direct which we acquired in December 2018 and its integration continues to go to plan. Adjusted EBITDA losses in Europe have increased slightly against the prior year with progress hampered somewhat by driver challenges in Germany and a lack of real improvement in product margin and customer acquisition costs. We are working to address these issues as detailed further below.

The AO team deserve praise for their efforts in a tough market environment – not least with the continuing uncertainty of Brexit.

AO is the success it is because of our willingness to innovate and move forward, to always challenge the norm and to always be honest with ourselves. The AO Way means relentlessly striving for a better way. And the truth is we can do better. Much better.

Since returning to the role of CEO in January, I've undertaken a swift but comprehensive review of the business. This was focused on our people as well as our operations. While there was much to celebrate, we needed to reset our approach. That refocusing was undertaken immediately and is already delivering results.

The fundamentals of AO are not at issue; the addressable markets in the UK and Europe continue to present substantial opportunities and we have a brilliant business that is set up for success. We consistently drive value from our core capabilities and the vertical integration of the business, while benefiting from the resilience the model creates. Leveraging our eco-system continues to present huge potential and I will say more about that below.

The issue over the past year was that the AO mindset was not optimised for growth. Put simply, the business had become too focused on process. While necessary to provide the essential controls and disciplines to support our bigger business, the focus had shifted too far.

This isn't an unusual challenge for a company at our stage of development, but it meant the pace and passion – fuelled by the energy and intelligence of our people – had slowed. That's not right for a business built on pace and a willingness to constantly innovate and I think that mindset has impacted our financial performance.

In my view as CEO, our mindset is the primary input that effects our output, specifically, our financial performance. It's amazing how much a mindset can change what's possible in a team.

So, we are getting back to the pure AO Way with clarity and leadership and have made a number of changes over the last three months. We've loosened the process grip and moved to an environment that will allow our talented AO'ers to thrive and rediscover their pace and passion – a change which has been embraced fully by all.

We have reset our North Star to what it once was: a total obsession with our customers. Everyone at AO will listen to them, treasure them, invent for them to try and make everything we do for them as amazing as it can be. And we believe through this obsession they will trust us with their hard-earned cash.

Two mantras have been reinstated to their proper place at the front of all our minds. Firstly, to ask whether we are treating our customers the same way we would treat our gran, and secondly, whether our mum would be proud of the decisions we're making.

More than anything else, in the current market, we have to trust ourselves and our values. The culture at AO is strong and continues to be one of our greatest assets. The commitment of AO'ers is built on our values of bold, smart, driven, fun and caring – which I'm proud to see they live out every day across the business.

Striving for better runs deep in the business and we're increasingly alert to the fact that we do not operate in a vacuum. We have competitors who, while coming from a lower base, are trying to innovate as well. It would be arrogant to assume striving for anything less than amazing for customers will protect us. Scale is no protection in today's world of disruption. We must take risks and back ourselves as we always have while accepting that we might get some things wrong. I will always take 80% right and fast, over 100% right but too late. Whether through thousands of incremental changes, or building something new, the best way to predict the future is to invent it.

With this in mind, we launched the AO Innovation Lab. This global search for digital innovators will help us disrupt ourselves and the online shopping marketplace before someone else does. We are seeking new solutions in customer experience and personalisation as well as the integration of augmented reality, scalability and logistics, exploiting tech innovation to deliver more for our customers. The goal is to help solve issues we're already facing, as well as inspiring us to open our minds to what we've not thought of yet; to dream with our eyes wide-open.

Our values

Bold

We have always been **Bold** from day one. We dare to be different and we thrive in a seriously competitive sector. Still, we don't follow trends we set them.

Smart

To make our bold aims work we're **Smart** – anyone can promise the earth, but we aim to find a way to do what looks impossible.

Driven

To turn impossible-sounding ideas into reality you have to be **Driven**. Things may get tough but we've never done anything just because it's easy.

Fun

Doing challenging things with like-minded people is what gets us out of bed and give our best. That's what makes AO a place where you can really have **Fun**.

Care

Underpinning everything is the way we **Care**, about people, about our work and about building something that really makes a difference.

The AO model is an eco-system of complementary competencies from across retail, mobile, recycling and logistics through to financial services and B2B, trade. We have huge structural advantages when these capabilities operate in harmony. So, we have enhanced structure with informality and are now releasing the immense unrealised value we've created. We've started to see this in the last few months and it will be an important driver for the year ahead.

The trial of AO rental we announced recently in conjunction with Housing Associations is a new and brilliant example of leveraging the AO eco-system. We have used our vertical integration efficiencies to protect the downside if customers default. Then we moved at pace, using our customer base to trial a retail proposition. We believe this model can significantly cut the cost for customers. It's truly a project that makes our mums proud.

We can use our eco-system to drive this positive feedback loop to deliver more and more value for customers. I've always said that we believe the network effect of this is huge and we're making a commitment to better evidence this as we go forward.

These principles apply to all our business competencies and territories, including our international operations. Our model is to extend our UK capabilities, built over nearly 20 years, into our businesses in Germany and the Netherlands; not to try and reinvent each time. We've made changes to the management of our international operations and are undertaking a catch-up review to make sure we capitalise on every ounce of influence, intelligence and capability.

The initial focus of that plan is to accelerate our journey to profitability by driving growth intelligently and sustainably. This means living the journey we went on many years ago in the UK and simplifying our model. We need the right people in the right areas with the right support from the UK to drive the right volume of traffic at the right cost. By doing that we will capture the profit opportunities en route to a more cost-effective delivery.

Reaction from the international team and those from the UK who have been asked to do even more has been humbling. They are truly people who make things happen, consistently demonstrating the AO Way. As a result, the plan has been reconstructed quickly and collaboratively without fuss and is now being implemented at pace.

Leveraging our competencies is now being actioned at real pace and we're already making progress. Looking ahead to FY20, immediate output has been positive. We are back to growth in MDA in Q1 with the newer categories compounding such growth. The key theme is to positively exploit the cost base that we have invested in to be brilliant for customers so that we can recreate that brilliance at a fraction of the cost. Our years of real-world learning and experimentation means we create value beyond AO to help others solve their own business challenges. Our model is for overheads to reduce as a percentage of sales, not rise.

We recently took the bold step to stop shouting at our customers through TV advertising and to invest in things that amaze them. We want our customers to share their own experiences with others, confident in the fact they will have a positive story to tell, via our digital platforms such as Facebook, Instagram, Mumsnet and others.

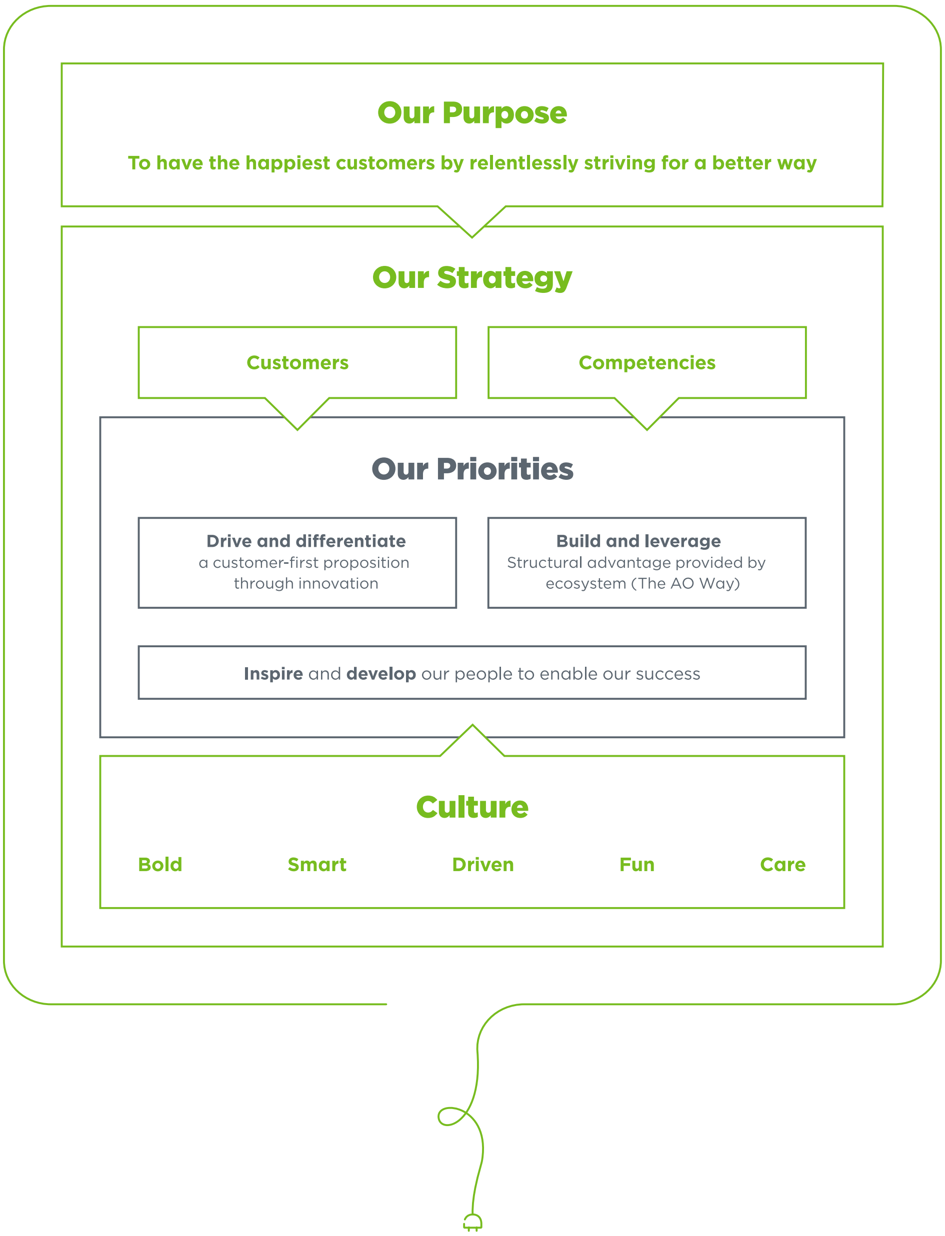
With the freedom to innovate at pace reinstated, AO is now firing on all cylinders. It's truly great to be back leading a team that I'm proud to tell my mum about and who are focused on treating our customers like their gran, every day and not just on Black Friday.

I'm fully committed to AO in the long term and hugely encouraged by the valuable release of energy from the team who are living the AO Way.

John Roberts
Founder and Chief Executive Officer
3 June 2019

Our three key pillars are Customers, Competencies and Culture (the 3Cs), as illustrated below. Each of these has its own value driver which provides clear direction across our business to guide us in achieving our Purpose.

Our strategic framework



Further details setting out how we will leverage our business model – "the AO Way" – to achieve our strategy are set out on pages 28 to 30. This explains how we have diversified; developing our competencies in the UK and leveraging our core assets to drive opportunities whilst accelerating growth of the AO brand. For example:

- we are trialling AO Rental, an affordable solution that we are uniquely able to offer because of our business model that allows us to leverage our relationships with manufacturers and our end-to-end solution;
- our nationwide logistics business that can deliver to every UK postcode daily and is focusing on increasing third-party deliveries; and
- we have one of the UK's most advanced electricals recycling plants capable of extracting valuable metals and plastics for resale.

Further details about the AO Way can be found in the case studies on pages 4 to 11.

The following section looks at developments we have made during the year across the key pillars of our strategy together with our priorities for next year.

Customers and Competencies

Priorities:

- **Drive and differentiate a customer-first proposition through innovation**
- **Build and leverage structural advantage provided by our eco-system ("the AO Way")**

Over the last few years we have evolved into a multi-category European online electrical retailer with a number of core competencies that we can leverage into our supply chain and complementary markets.

As a result of this, our customer base has grown significantly from our core B2C customers who shop via ao.com, ao.de, ao.nl and through marketplaces. In addition to these customers we are now also transacting with customers from our recently acquired mobile phones subsidiary mobilephonesdirect.co.uk, white label sites, B2B customers such as housing associations, housebuilders, insurance claims agents, manufacturers, other retailers (for logistics services) and clients of our recycling business.

All our customers are at the core of what we do and drive our thinking and innovation. Our core retail offering remains strong: unbeatable prices, huge range, wide availability, smart and innovative web content and amazing service. We continue to focus on providing a market-leading proposition across all our competencies. Investment over the years means that we have created a delivery and service infrastructure that customers can depend on when they need it most.

The risks affecting our priorities in our Customers and Competencies pillars are set out on pages 40 to 44 of our Risk Review.

How we've progressed this year

- We have significantly enhanced our mobile proposition through the acquisition of Mobile Phones Direct Ltd "MPD" (since renamed AO Mobile Ltd) in December 2018, making us the UK's second largest indirect mobile connector and significantly increasing our customer base. Our existing mobile offering has now been extended to include network contracts and SIMs providing our customers with access to the four UK mobile network operators: EE, O2, Three and Vodafone. The addition of MPD diversifies our range of online electricals and thereby increases our addressable market size. Please refer to the case study on pages 4 and 5 for further details of the rational and benefits for the acquisition of MPD.

- We have continued to review and broaden the range of products offered to our customers. In the UK we have added new brands and products to our existing categories particularly in smart home, gaming and cameras. We continue to bolt-on complementary categories, launching DIY and Gardening shortly before the year end. In the Netherlands we have grown our range from around 1,800 to 2,800 SKUs.

- We have broadened the number of marketplaces through which our proposition is available launching on Amazon in the UK and into the Idealo and Bol marketplaces in Europe. We also launched our new bundled services proposition to offer discounts on purchasing multiple services together.

- We continue to invest in our innovative web-content in conjunction with partners and through the use of videos and brand pages. We have also developed a virtual showroom for ovens through our innovation partnership with Samsung.

- We have further improved the customer journey through the mobile optimisation of My Account and increased customer self-serve. Our AO app has been optimised to become web responsive and we are testing Chat Bots to guide users towards the best product for their needs.

- To ensure our end-to-end proposition is best in class we continue to invest in our logistics infrastructure, improving warehouse and routing efficiencies and providing our customers with a track-your-order feature and in-flight delivery options improving choice. We are able to deliver, install and remove products in one visit to a customer through our premium installation service which is available seven days a week to more locations than ever. During the period we have continued to grow and develop our Premium Installation Team via our AO Academy (in conjunction with City & Guilds). We now also offer scheduled delivery options for customers who purchase through Amazon. Premium installations were also launched in the Netherlands and in Germany during the year.

- Three new outbases in Telford, Coventry and Luton were added to our UK logistics infrastructure during the year taking the number to 17. This will help ensure resilience in our delivery network and maintain our market leading product availability for customers, whilst reducing stem mileage and improving efficiencies in our logistics division. In Europe the number of outbases increased from five to seven as we continue to build scale, launching our new outbases in Stuttgart and Leipzig. We also have an agreement for a further outbase in Dortmund.

— Our Logistics business has been focusing on securing new third-party clients and has seen its first venture into the delivery of non-electrical two-man delivery items on behalf of a UK furniture retailer enabling us to leverage our green fleet.

— We have switched our service backed warranties to insurance, branded as AO Care, and we can now, still as agent for D&G, offer a truly digital experience. This provides an ongoing, in-life point of contact with customers that continues to build on our relationships and helps generate repeat business. We have also undertaken a strategic review of our consumer finance offering and we have partnered with NewDay to provide customers with a fully digital revolving credit facility, offering customers additional purchasing flexibility with a launch date later this year.

— We are also now fully operational in processing ammonia fridges. Working with Dometic to build a new machine at our main recycling plant in Telford, we are proud that it has already been awarded the European WEEELABEX standard.

— During the year we commenced building a plastics refining facility due to be operational during FY20. This will give us the capability to sort waste plastics from our fridge plants, allowing us to reuse or resell this plastic and creating an additional sustainable revenue stream which continues our theme of vertical integration.

— We believe there is a big opportunity to leverage AO's infrastructure and provide an AO-quality experience for businesses by providing dedicated account management and expertise to help businesses buy better. During the reporting period our B2B division has been working to grow its customer and client base across multiple industries. Supplier support has been secured and we have introduced a new commercial range of products. Trials with housebuilders and charities have commenced.

— We have leveraged the AO Way into complementary business streams by launching a trial rental service for white goods. We have partnered with two Housing Associations in England and Scotland and are also running a small scale B2C trial via ao.com. In our usual way we will learn first and apply our knowledge in this area before realising it fully.

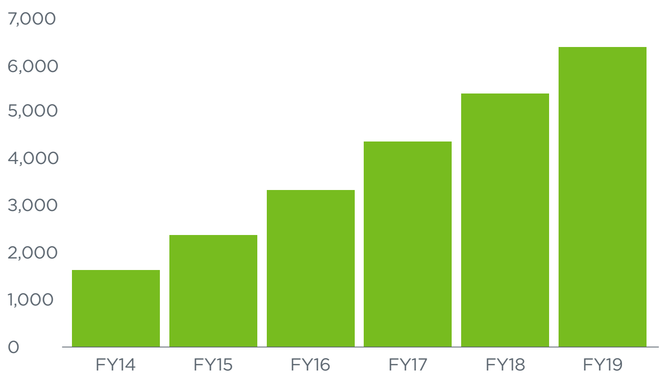
— In July, we launched our new brand campaign "Delivering Tomorrow" which was created following a significant amount of research into the factors that are important to customers when shopping the electricals category. Our aim was to find a compelling way to tell AO's unique story, to build awareness and consideration of the AO brand as well as our verticals. The creative was well received, and we experienced increases in brand awareness metrics although this didn't convert into sales in the shorter term as we had hoped.

— As well as these specific initiatives throughout the business, we have also worked to improve the capture of data across our business. In our core retail business, we have migrated to a new web analytics platform to improve marketing effectiveness and measurement whilst providing an underlying data source for our future personalisation plans. In logistics, dashboards have been introduced in our outbases and geo-fencing has been used to improved routing efficiencies. A new database has been installed in our recycling business to better manage end-to-end processes including delivering operational efficiencies and integrating this into our invoicing platform. The development of fridge plant software has enabled root cause analysis and the deployment of planned preventative maintenance.

Our KPIs

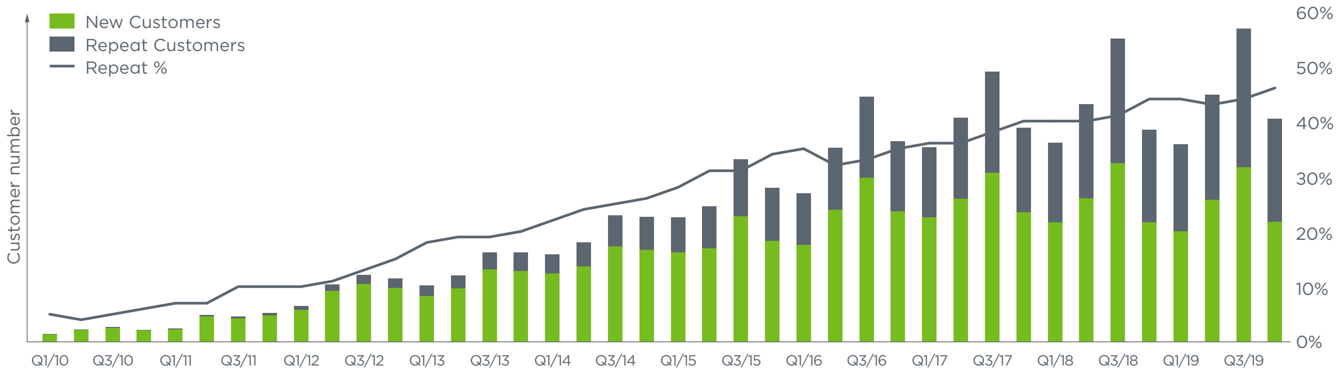
Our Net Promoter Score (an industry measure of customer loyalty and satisfaction) has again been maintained at its consistently high level of over 80 in the UK and Germany and over 75 in the Netherlands. With over 121,000 reviews in the UK our Trustpilot score of 9.2 is market leading and 89% of customers rated us as "excellent" at the period end. In the UK, nearly 6.5m individual retail customers have now shopped with us via ao.com, and we are approaching 800,000 in Europe, providing us with a fantastic asset to leverage for future growth. Our repeat business remains strong and we continue to attract new customers.

UK customers (000s)*



* A customer is defined as an individual customer who has purchased through us via ao.com

UK New Customers vs Repeat Customers (%)



What we plan to do next year

— We will continue to improve our proposition for our retail and business customers as we strive to make the shopping experience effortless. We will build on our supplier relationships to further broaden our ranges and categories, explore new channels and develop our marketplaces offering. Our consumer finance offering with NewDay will be launched later this year, providing customers with a fully digital revolving credit facility and offering additional purchasing flexibility. We will broaden our premium installations offering with new products and services and investigate opportunities to broaden our client base.

— We will develop our AO Mobile branded proposition to provide a market leading online-only mobile offering through utilising MPD's knowledge and capitalising on AO's infrastructure and supply chain strength. We will broaden our product offering in this area.

— We will continue to leverage our competencies for example:
  — continuing to build our third-party logistics client base;
  — learning from the trial of AO Rental, and exploring a B2C offering; and
  — exploring opportunities for our AO Multimedia business with third parties.

— In our recycling business our key volume capacity expansion project will continue with our plans for a second fridge recycling site underway. Once built, the capacity of both plants will mean that AO has the ability to process around 40% of all the fridges collected in the UK.

— We will launch AO Innovation Labs, an initiative to provide start-up businesses with the expert mentorship and resources needed to turn ideas into reality, whilst helping us to deliver a unique shopping experience.

— We will move to a Group, rather than territory management approach to help make improvements in our Europe business, supporting new management with UK experience and resource. We will work with suppliers to improve product margins, continue with our logistics plans to reduce costs to deliver and focus on driving overhead efficiencies and cash management. We will leverage Group capabilities into our Europe business as appropriate to each market.

— We will continue to refine our brand strategy as we seek to make ao.com famous. We now plan to move to more tactical marketing with an emphasis towards a bespoke form of digital marketing with more use of social media, in-house content creation and first-time use of influencers.

Culture

Priority: Inspire and develop our people to enable our success

Our AO Let's go culture is how we deliver for customers.

Our exceptional 5-star Trustpilot rating and NPS results don't just happen by accident, nor does our expanding eco-system and competencies. Behind every happy customer is around 3,000 AO'ers, across three countries. Together, we relentlessly strive for a better way.

Our ambition is to be a business that:

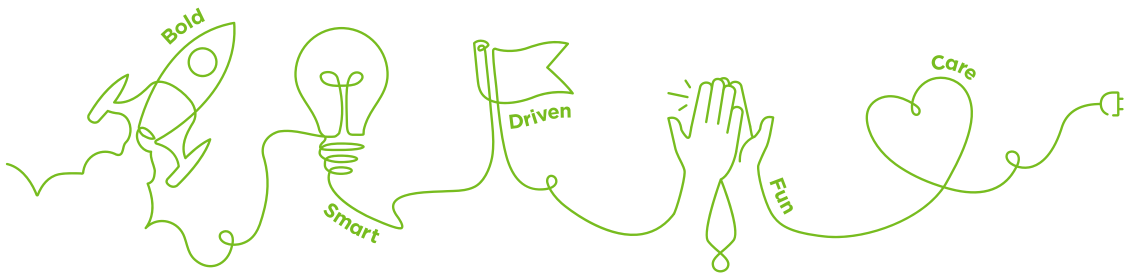
— empowers people to thrive by creating an environment where people feel truly understood and valued;
— enables our people with the encouragement and tools to succeed; and
— inspires its people by creating role models to engage and support diversity and inclusion.

We empower our people to make the right decisions, those that their mums would be proud of. Our people are free to take the opportunity to learn in a fail-safe environment. We inspire our people to be bold and give things a go. We believe in coming to work with an open mind, to create new opportunities. We provide the right environment for smart ideas, thinking in unconstrained ways. We are at our best when our backs are against the wall. We motivate our people to be driven and to never give up. We see every obstacle as a chance to pursue a better way. We act with pace; we do today what can be done tomorrow. Winning as a team is what makes our business fun. We treat every customer like they're our gran, to ensure our customers are the happiest and we take pride in our work to deliver it.

It is the combination of all these factors and the alignment of our people to our purpose, values and business strategy that creates our AO Let's go culture. This will grow our business and make us an unstoppable force.

The risks affecting the priorities in our culture pillar are set out on pages 40 to 44 of our Risk Review.

Our values



To have the happiest customers by relentlessly striving for a better way

How we've progressed this year

- To nurture our culture we have continued with our strategy of developing within by focusing our recruitment on entry level roles to ensure we have a team of people who live and breathe our values who are provided with a range of career progression opportunities across our business. This approach is complemented by the targeted recruitment of people who have the appropriate skills and experience to broaden our capabilities and drive growth whilst at the same time exhibiting our values.

- In conjunction with our diversity work we have improved our recruitment processes to ensure we attract a diverse workforce, broadening our talent pools and the employee demographic within our organisation. We carefully select the environment in which people are interviewed and have reduced any unintended bias in the early stages of our recruitment process. We now have the necessary software and inductions to allow AO'ers with visual impairments to join our call centre. We have also introduced 'AOInspire' talks which are delivered by external speakers with an inspiring and thought-provoking story to tell.

- We launched a women's mentoring programme aimed at developing the women of our future. The programme sees women in a range of job roles and levels work with a mentor to support their personal development and career progression. To aid success, we are skilling a wide range of mentors across the business to meet the specific needs of this group and the long-term aim is to mobilise the women on this programme as mentors in the future.

- To gather insight on how we can preserve, protect and improve our people experience we have revised our annual people engagement process and have moved to a happiness measurement to more directly align us to the achievement of our Purpose. This insight has allowed us to develop our people proposition which forms the backbone of all people initiatives. We will measure happiness on a more regular basis to keep our finger on the pulse of the AO'er employee experience.

- To support us in the achievement of our Purpose we have introduced a number of forums to facilitate the exchange of ideas and feedback and to evaluate new initiatives.

- As part of our continued focus to support young people in their early careers, we continue to offer a wide range of apprenticeship qualifications. In the last year, 16 apprentices have completed an apprenticeship qualification in a range of subjects such as digital marketing, social media and accounting. We have also continued to support our apprentices to build wider skills that will help them in their work and their lives. Through the Duke of Edinburgh Gold Award (DofE), our apprentices build self-awareness, resilience, team working and leadership skills through a range of experiential challenges over an 18-month period. We are proud of the 13 apprentices who completed the DofE award in the last year.

- We have received a number of awards during the year including:
  - Recruitment Team of the Year 2018 award at the UK Contact Centre Forum (UKCCF) Awards 2018 for our innovation and a great team ethic;
  - Awards from the South Cheshire Chamber of Commerce Awards for our people-led approach to doing business 2018; and
  - Best Sales Team and Best Sales Employer at the British Excellence in Sales Management Awards 2018.

- To ensure that we have the skills and leadership in place to support the growth of the business we have used our apprenticeship levy to fund existing employees in a range of disciplines such as Digital Marketing and procurement and supply. A range of employees from the newly recruited to the newly promoted have joined apprenticeship courses, including CIPD qualifications and Leadership and Development.

- We continue to work with AO'ers on both a team and management basis around our business to support skill development, team effectiveness and change/team transitions. Areas of focus include emotional intelligence to improve collaboration, relationship management to continue to build a connected business and self-development to maintain individual engagement.

- In our Europe business in particular we have:
  - opted for an "always on" survey strategy that enables us to engage and receive feedback from our employees on an ongoing basis;
  - intensified our level of internal communication to ensure our people fully understand our strategy and to increase the level of transparency and informality; and
  - implemented a new review system as part of a new performance management approach further increasing ongoing dialogue between our people and managers and providing clarity on career goals and development paths.

What we plan to do next year

- Reignite the pace of an entrepreneurial business by reducing the process-driven approach and mentality that has developed, thus returning to our passionate and fast-paced growth mindset with a willingness to constantly innovate. This will allow our employees to thrive.

- Introduce a new performance management framework to ensure our people continue to remain connected to our Purpose and to help develop a high-performance mindset across all parts of our business whilst at the same time identifying the contributions made by our AO'ers throughout the year.

- Continue our focus on diversity and inclusion as we seek to engage and retain our existing future workforce. We have a number of key actions that will allow us to take great strides in maintaining a diverse workforce and a truly inclusive culture.

- Introduce technology to provide easy access to learning, social learning activities such as speed mentoring and leadership lessons to build connection through informal learning channels and maintain targeted development through apprenticeships, qualifications and internal programmes.

- Support the health and wellbeing of our people through the launch of a new Hearts & Minds initiative this year. This will focus on a number of key areas, one of which is Mental Health.

- Develop our leaders to build their effectiveness as a group as well as individually.

- Continue to grow our internal talent, rewarding achievement and hiring great new people informed by our insight and strategy.

AO Logistics

Expert Logistics have been the first choice Home Delivery service provider for our business in England and Wales for the past 11 years. In this time Expert Logistics have continually strived to deliver the best consumer journey from initial contact all the way through to after care. This focus on "best in class" service is proven by their operational performance; and along with identifying cost efficiencies for our business remains the reason why we choose Expert to represent our business on final mile delivery to our valued end users.

Electrolux spokesperson

The AO model is an eco-system of complementary competencies; from across retail, recycling and logistics through to financial services and B2B trade.

How our model has developed

At the time of our IPO in 2014 we operated in one country and principally in one category, the retail of Major Domestic Appliances in the UK. Since then our business model has become more complex as we broadened our offering into new categories and countries. We have expanded vertically into our supply chain, leveraging our brand and competencies and successfully replicating our culture of always striving for a better way.

The AO Way is about leveraging our core competencies that we have built over the years to support our Purpose; to have the happiest customers.

As our brand grows we are building a loyal customer base which we are committed to investing in. This investment and the development of our competencies is supporting further growth and profitability and is creating sustainable value for all our stakeholders.

AO's people, our culture and values provide the most important aspect of our competitive advantage as we relentlessly strive for a better way for our customers. Underpinned by our continued investment in people, infrastructure and systems and our relationships with our suppliers, our culture and values provide the glue that binds our model together.

Creating value: having the happiest customers by relentlessly striving for a better way

At the heart of our model are our resources and relationships (the things we are really good at): People, culture and values, our scalable systems and processes and our supplier relationships.

You can read more about them on pages 31 and 32.

Inputs

Our business model comprises the following core competencies:

Retail

In 2000 the AO business was born as our Founder and CEO, John Roberts, sought to change the way white goods are purchased in the UK. Since this time our offering has broadened to include the sale of more and more categories and ranges, ancillary services, and we have also expanded into new territories. This core retail competency, and its customers, remain at the heart of what we do with simply excellent execution in both our core UK and European Retail businesses through our many e-commerce platforms. We have a market-leading customer proposition through our website platform with rich and innovative content across a huge range of products, supported by a full service and delivery proposition, all at a competitive price.

We constantly obsess over our customer service. Our simple approach is to treat every retail customer like they are our gran and to make decisions for customers that would make our mums proud. These are genuine guiding principles which have been at AO's core for 18 years and similar principles apply to our B2B customers. The caring customer ethos we foster is the reason we have surpassed 100,000 reviews on independent customer feedback site Trustpilot, making ao.com the 20th company to break this threshold globally and the first online appliance retailer. We currently have a 95% "great" or "excellent" score on the Trustpilot platform, which places us in the top 0.01% of companies to achieve this threshold whilst managing to keep the highest accolade available.

Mobile

In December 2018 we acquired Mobile Phones Direct Ltd "MPD" (since renamed AO Mobile Ltd) making us the UK's second largest indirect mobile connector and significantly increasing our customer base. Our mobile offering now includes network contracts and SIMs providing our customers with access to the four UK mobile network operators: EE, O2, Three and Vodafone. The addition of MPD diversifies our range of online electricals and thereby increases our addressable market size. Our product offering will be further enhanced as we develop our AO Mobile branded proposition to provide a market leading online-only mobile offering by utilising MPD's knowledge and capitalising on AO's infrastructure and supply chain strength.

Business-to-Business ("B2B")

Trade customers have been buying from our ao.com website for years, from schools and offices to large landlords and housebuilders. We have formalised our B2B offer with a dedicated website and specialist teams. Our proposition remains centred on AO's amazing customer service but is tailored to the specific needs of "trade" customers in different markets. Our agents and account managers are specialists in dealing with complex orders and offline queries, priding themselves on having a deep understanding of the markets they serve. B2B is also an important opportunity for us to further leverage our logistics and recycling competencies in a market where nationwide next-day delivery or the removal of products is far from standard.

Logistics

Our logistics business is one of the leading home delivery providers of white goods in the UK. From our "hub" in Crewe, comprising two distribution centres with a total of over 700,000 square foot of space via our network of 17 delivery depots, we deliver millions of products to customers each year, both for our retail business and third-party clients. We currently operate around 500 trucks and 200 trailers, delivering nationwide seven days a week from 7 am to 7 pm and offer end customers the benefit of dynamic timeslots. Our service is broad, from the basics of unpacking and inspecting customers' products, to complex gas cooking and integrated installations. We see much more potential in Logistics for example through growing our installation services for customers including Smart Home install to offering our market-leading two-man delivery service to other retailers.

Financial Services

Our financial services business currently encompasses the sale and promotion of product protection plans and consumer credit products (where we act as agent and broker respectively). As with the core retail proposition, we strive to have the happiest customers and so naturally the financial products we promote need to offer great value and benefits. The pay-monthly product protection plan (which we promote as agent for D&G) can last indefinitely and gives customers the opportunity to receive a repair or replacement product should their protected product break down at any point in its life, providing security and peace of mind. We promote a range of credit products with a competitive general credit product offering at 19.9%, but also use 0% interest free offerings and buy now pay later for promotional purposes; we adhere to responsible lending practices and provide simple and clear finance options for our customers.

As with our core retail business, we are very much led by the wants and needs of our customers, and we are evolving our existing financial products to ensure that we are able to offer a market-leading proposition which demonstrates our values and excels in service delivery and care.

Rental

This year, our trial in rental has been an excellent example of how we can leverage the AO Way into complementary business streams. We have partnered with two Housing Associations in England and Scotland with an ambition to reach thousands of families over the next year. Rental appeals to a broad range of customers, not just those on lower incomes, so we have also been running a small scale B2C trial via ao.com to learn more lessons about rental before realising it fully. Our advantage is that we own most of the supply chain and have strong relationships with product manufacturers; this keeps our costs low, meaning we can save customers money when it comes to renting electrical essentials.

Recycling

Our purpose-built, state-of-the-art WEEE recycling facility in Telford is the biggest in the UK and has the capacity and capability to process fridges as well as other large domestic appliances responsibly and correctly, as well as refurbishing appliances brought in from AO customers for resale. We recycle around 700,000 appliances every year, meaning customers can rely on us to dispose of their end-of-life electrical products in the most environmentally responsible way. At a time when consumers have never been more environmentally aware, AO Recycling is an increasingly critical part of our overall proposition. AO Recycling also provides us with a number of potential business opportunities and is a great example of how we can vertically integrate into our supply chain.

New verticals/Business streams

Our Multimedia team employs some of the most talented animators, film-makers and editors in the North West to produce all of AO's video requirements, from individual "how to" product films for ao.com to company-wide productions. We are exploring the ability for AO Multimedia to become a potential income stream in the coming year. From offering a full-service production facility to other businesses to licensing generic product content to other retailers across the world, multimedia is an emerging new vertical for AO.

How we will create value

Our business model is the result of years of expertise and investment in delivering the best service for our customers. This has developed into core competencies which provide us with a platform for the execution of our Purpose. In turn, this will help to build our brand and reputation into one of our greatest assets as we become partner of choice for customers across our chosen businesses, attracting new and repeat custom, thereby growing market share, revenue and profits, in a responsible manner for the benefit of all our stakeholders. As we continue to grow, we can reinvest in these competencies for the further benefit of our customers. This will include the addition of complementary categories, services and products in the AO Way.

Our business model and proposition are scalable and provide us with a platform to enter new countries and vertically integrate our supply chain where we can leverage our core competencies.

We continue with our strategy of allocating capital generated by our UK business to be invested in EU operations during its growth phase until it reaches critical mass. We aim to build a scaled business that is profitable, with our systems and culture, fully integrated, which will in turn become a future source of capital generation for the Group.

Our competitive advantage or what sets us apart

Our people, culture and values

The most important element binding the competencies in our business model together is vibrant culture. We have a team of people who genuinely care more about our business and its customers, and who live our five values. AO'ers seek to understand what our customers really want and how to make AO's offering work for them. They then roll up their sleeves and make things happen in an innovative, collaborative way across our business. You can read more about our Culture in our Strategic Report on pages 24 and 25 and in our Resources and Relationships section on page 32.

We give customers a flexible, personal service and make clear commitments to them which we then deliver on regardless of where they transact with us, from recycling to logistics to our retail sites across territories. There is no stronger testament to this than our recent Trustpilot achievement. In April 2018, our retail website ao.com had received over 100,000 reviews on customer feedback website Trustpilot, making us the 20th company to break this threshold. We are very proud to have a 95% "great" or "excellent" score on Trustpilot's platform which allows customers to feedback on the services they have received once they have made a purchase.

Underpinning our competitive advantage are:

Our scalable systems and processes providing operational leverage

Our key IT systems are largely developed in-house. As part of striving for a better way, we are therefore able to develop and customise our customer offering in a dynamic and timely manner. We also benefit as they are scalable and transferable and reduce our reliance on third parties. This creates a significant barrier to entry and makes it difficult for competitors to copy our model but easy for us to replicate in new categories and territories. It also provides for a more varied IT career with AO meaning we can recruit and retain the best talent.

Our supplier relationships

We recognise that we form part of a supply chain in all of the businesses that we operate in. Our belief is that both we and our suppliers benefit the most where we have long-term mutually supportive relationships in place. This may manifest itself differently across our business units; for example, manufacturer suppliers supporting the formalisation of our B2B offering or the collaborative approach undertaken with the supplier for the design and build of our recycling plant. Our relationships with them are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

You can find out more about our suppliers in our Resources and Relationships on pages 31 and 32.

Who we benefit

Our customers

The customer is at the heart of everything we do. We are relentlessly striving to improve and transform the services, journey and products we offer to our customers across all the territories and verticals in which we operate.

Our employees

We create an environment to allow them to flourish and be the best that they can be. We provide a sharesave scheme to allow employees to share in the Group's success and offer a wide range of programmes and courses to allow them to develop.

Our suppliers

We aim to partner with our suppliers in a collaborative way, seeking to drive and develop new opportunities that are beneficial for all. The importance of our suppliers continues to grow as we look to develop new opportunities.

Our communities

We are an employer of nearly 3,000 employees and contract with a large number of third parties. We invest time and money in local communities through employees volunteering and via the AO Smile Foundation.

We pay our taxes and aim to operate responsibly, minimising our impact on the environment.

Our shareholders

The benefits we provide to other stakeholders drive the benefits to shareholders. Our strategy in the short to medium term is to invest our UK profits into growing our European operations into profitable businesses. As the Company intends to retain any earnings to support the growth and development of the business, we do not anticipate paying any dividends in the foreseeable future.

Our resources and relationships

Our success relies on a number of key elements, including: our customer service which is driven by people and culture; our supplier relationships; and our systems and processes.

Customer relationships

At AO, we treat every retail customer like they are our gran and apply a similar ethos to our business customers. This simple but sincere philosophy makes our customer service market leading.

Our online stores provide customers with everything they need to make purchasing decisions, from detailed technical information, "how to" product videos, genuine customer reviews, product and price comparison tools and an enhanced retail experience, which are not always available in stores.

One of our aims is to become the "destination for information" helping our retail customers (both consumers and trade) decide which product best matches their needs. We provide 3D animation and feature-led reviews to bring products to life, we simplify complex technologies, highlight user benefits and then deliver it to the customer with our market-leading standards. Our best service goal means that we aim to develop a retail experience which is as easy and effortless as possible, always maintaining a personal touch.

We have developed the AO app to be fully transactional and customers are able to shop on their Desktop, Tablet or Mobile device or speak to an adviser on the telephone or via our Live chat function.

We offer over 8,000 SKUs in the UK, nearly 3,000 in Germany and over 2,500 in the Netherlands, a price match promise and deliver seven days a week (six in Germany and the Netherlands) at no extra charge. We offer a broad range of MDA, SDA and AV across all territories in which we operate. In the UK we also offer a growing range of computing, gaming, phone and smart appliance products. We have recently added a gardening and DIY category. Our acquisition of Mobile Phones Direct Ltd will provide the bedrock for AO Mobile, which will be a market-leading proposition executed the AO Way by leveraging all of our verticals in this fast-growing area. The range of ancillary services we offer, such as customer finance options, product protection plans, an unpack and recycle service, product care packs and disposal and connection services, is also growing.

Customers are looking for the best products, best service, best price and the easiest shopping experience so that's what we offer. As a result customer satisfaction levels are high and our customers love us. In April 2018, our UK retail website ao.com had received over 100,000 reviews on customer feedback website Trustpilot, making us the 20th company to break this threshold. We are very proud to have a 95% "great" or "excellent" score on Trustpilot's platform which allows customers to feedback on the services they have received once they have made a purchase. As at 31 March 2019, ao.com had a 9.1 score on Trustpilot, our AO app currently has a 4.8 out of 5 rating, and as at 31 March 2019 we had 4.75 out of 5 stars on Trusted Shops for AO.de. Our NPS scores remain consistently high.

As we've developed our supply-chain capabilities to support the retail business, we now have excellent logistics and recycling businesses which we can leverage with third-party clients. Over the last few years we have been focusing on growing our AO branded green fleet and so third-party logistics sales reduced. However, we are looking to leverage our capabilities and brand to grow this business once more, giving amazing service to customers and making the experience of having a delivery from us as enjoyable and stress free as possible. During the year we commenced delivering furniture for one of our new customers and we are looking at other product categories where we can leverage our expertise. In recycling, our plant processes MDA WEEE from our UK retail business and we have opened up our spare capacity to third parties, providing them with best-in-class recycling to ensure waste is dealt with efficiently and responsibly.

Supplier relationships

Historically, our supplier relationships have been focused on the product manufacturers for our retail business. As we diversify and leverage our competencies in the UK, supplier relationships have broadened and we now see our key relationships as:

- the manufacturers and distributors that supply products to us;
- our delivery providers (ranging from national organisations e.g. DPD and Collect+) to whom we now outsource deliveries of smaller products to individual contracted drivers and small/local businesses who provide the two-man home delivery service for our MDA products);
- third-party providers of significant plant and infrastructure (particularly in our recycling business and IT systems); and
- Mobile Network Operators.

These relationships also includes D&G, for whom we provide product protection plans as agent and going forward our new finance partner NewDay.

Our belief is that both we and our suppliers benefit the most where we have long-term mutually supportive relationships in place; we recognise that driving a fair bargain rather than a hard bargain will build long-lasting and fruitful relationships.

We are careful to listen to the concerns of all suppliers and act accordingly, have regular meetings at both operational and strategic levels with key suppliers and put in place clear service level agreements to ensure suppliers have a good understanding of, and are able to meet our expectations.

This may manifest itself differently across our business units; for example, manufacturer suppliers supporting the formalisation of our B2B offering or the collaborative approach undertaken with the supplier for the design and build of our recycling plant. Our relationships with them are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

We recognise that we form part of a supply chain in all of the businesses that we operate in. There is considerable interdependence between us and the manufacturers, and most of the relationships have been in place for many years in the UK. These relationships are becoming increasingly strategically important to our suppliers as we grow our customer base, sales volumes and influence on customer demand, but also to us as we seek to leverage our competencies. We aim to work in partnership with them, sharing insight and knowledge, innovating categories and changing the normal course of retailing.

We understand that our manufacturer suppliers invest significantly in research to develop product features, so we think a lot about and invest in how we add value for supplier brands to be the trusted partner in our channel and we always think long term. Our innovative content offers our manufacturers a great platform to showcase their products and deliver our brand messages as our 3D animation and feature-led reviews bring products to life.

Our people and culture

The importance of our people and culture is set out in the Strategic Report on pages 24 and 25. AO employs around 3,000 people across three countries. We believe that happy people care more and require a lot less management. So, we make sure they're happy by giving them autonomy where appropriate, support where needed and a great environment to work in. They are empowered; they are incentivised; and they know they are trusted. We love watching them grow and thrive. We recruit and retain the best talent and look for people who are smart, bold and driven. They must care more, not only about our customers but other stakeholders of the business too, be it our suppliers or other employees and, of course, do it all with a sense of fun.

Diversity is something we actively support and promote. This encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socioeconomic status, physical and mental ability, thinking style, experience and education. Female representation on our Group Management Team (excluding the Executive Directors) was 38% at the end of the reporting period, whilst the number of female employees across the whole of our business was 31%. Understanding how we can further diversify our workforce has formed a key part of our 2019 people agenda. Creating an environment where people can succeed and deliver their best every day is central to this. A series of workshops have been delivered across the business to help us further understand our positioning on diversity. We have spoken to numerous employees in all areas of our business and at all levels to understand their stories and experiences. This has ensured that all action plans are built on insight, focused on creating an inclusive environment and delivered to effect real change.

Our latest Gender Pay Gap report can be found at ao-world.com

AO is committed to maintaining good practice in relation to equal opportunities and reviews its policies on a regular basis in line with legislative changes and best practice benchmarking. It is Company policy that no individual (including job applicants) is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age or frankly anything else, and recruit on this basis.

The Company aims to ensure that:
- recruitment practices and selection procedures are free from discrimination or bias;
- working practices, career progression and promotion opportunities are free from discrimination or bias; and
- employees are aware of their own personal responsibility in ensuring the support of the policy in practice.

Disabled persons have equal opportunities when applying for positions at AO and we ensure they are treated fairly. Procedures are in place to ensure that disabled employees are also treated fairly in respect of career development. Should an employee become disabled during their course of employment with the Group, we would seek whenever practical to ensure they could remain as part of our team. In the opinion of the Directors, our equal opportunities policies are effective and adhered to.

Further details of our work in relation to our people and the community can be found in the Corporate social responsibility statement on pages 34 to 36.

Systems and processes

Distribution

Our UK in-house delivery network runs from Crewe and 17 outbases around the UK. We operate a similar model in Europe and currently have a European Regional Distribution Centre in Bergheim and a number of outbases and customer service centres across Germany and the Netherlands.

Delivery and installation options, speed and reliability are important as are the removal and recycling of the old appliances.

IT

Our core IT systems have all been developed in-house. The systems are bespoke; built for and continuously adapted to fit the needs of the business. They are therefore not easily replicable by any competitor and they are scalable and resilient.

Our automated stock forecasting and ordering system is integrated with suppliers' systems, meaning that we can combine high levels of availability for next-day delivery with the efficient use of working capital. It also means that we can optimise resources by, for example, loading trucks most efficiently.

Every week thousands of new customers are discovering AO

Why customers choose us

Excellent product, well priced, brilliant delivery service, will definitely use again.

Stephen
Trustpilot.

I am in no doubt AO are the best online retailers I have ever dealt with. Highly recommended and the service they provide from first buying to customer services and telephone communications... fantastic.

Mrs G
Trustpilot.

A modern company with old fashioned values. Our values are what set us apart.

Responsible retailing

The Board considers that the development, wellbeing and safekeeping of people is central to supporting its strategy and this, coupled with our social and environmental credentials, is fundamental in creating a sustainable business. Putting customers at the heart of our business decision making means that our Social Value can be far greater than the sum of our parts. For example, leveraging our model to launch the trial of a market-leading rental proposition suddenly means that millions of families could one day have access to affordable, essential appliances via AO. Equally, the standards we have applied to our recycling business to create one of Europe's leading MDA recycling plants, means the quality of raw materials that are produced from waste MDA can be used to make new products and AO is able to extract value from this.

Keeping people safe

We are committed to not only meeting our legal obligations but ensuring the business continually improves in order to achieve the highest standards of Health and Safety practice for anyone affected by our business activities. We have rapidly grown the health and safety culture alongside the continued growth of the business.

We are committed to increasing the competency of all levels of the business whether through recognised external H&S leadership training programmes or internal H&S focused frontline operational training. We have also committed to our obligations to effectively manage the risks associated with mental health by training several key personnel throughout the business as mental health first aiders.

We have been independently assessed through the RoSPA awards programme which assesses our commitment to raising health and safety standards and have achieved both silver and gold awards across our business.

We have heavily invested in a variety of training courses, externally hosted, in-house and online to ensure that our staff are trained and competent to complete their assigned tasks in an efficient and compliant manner.

Our Health and Safety policies and procedures include:

- Periodic internal audits on our Health and Safety performance by an independent expert, which reviews legal compliance, how we benchmark against best practice and how we maintain a safe environment.
- Regular internal inspections completed by the department to monitor performance in each area.
- Managing risk and promoting Health and Safety culture in the Board's agenda and Senior Management meetings.
- Consistently supporting the network of Health and Safety Representatives across the Group.
- Seeking accreditation and aligning long-standing Company programmes and procedures to internationally recognised management standards.
- Appropriate training and education of employees to adhere to legal compliance and best practice.
- Quarterly Health and Safety Committee meetings designed to encourage input and openness.
- Providing a safe environment to significantly reduce occupational injuries or illnesses.

Supporting our communities

AO actively encourages all employees to support and give back to their local community and the AO Smile Foundation continues to facilitate this.

Many of our UK employees make a regular monthly gift to the charity, and during the year over £50,000 was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible.

Delivering a better tomorrow is a huge part of our culture. With AO Smile, we're striving to provide practical and emotional support for those who are most vulnerable. To do this, we've identified local charities that reflect this mission and hundreds of our AO'ers kindly donate a portion of their salary to these incredible causes. In recognition of AO's commitment in fostering a culture of philanthropy and committed giving in the workplace, we were delighted to once again receive a Platinum Payroll Giving Award from HM Government and Institute of Fundraising.

Over the year we have continued to encourage colleagues to have a positive impact within their local communities and continued to support four local charities, including:

- Help provide support to charities by sharing skills
- Yorkshire 3 Peaks Challenge
- Great Manchester Run
- Big Manchester Sleep Out
- School Uniform Donation Campaign
- Offer two volunteering days a year to every AO'er.

We also offer fundraising boosts to AO'ers who are raising money for causes that are close to their heart. From shaving heads and selling cakes to running marathons and climbing mountains, we're always looking to support our incredible people to create better tomorrows.

We also actively promote the graduate career opportunities available at AO to our local communities. For example, our Financial Services operations based in Manchester engage with local universities, supporting and sponsoring awards designed to recognise high achievers and contributing at panel events to inspire graduates to consider a career outside their degree subject. We also run a programme of employability initiatives designed to equip graduates with the skills needed to be successful in the workplace. We deliver resilience and goal setting workshops on campus, together with CV writing, interview tips and mock assessments on campus. Our work has been well received and some universities have adopted this into their professional development modules.

Business ethics

Our Modern Slavery statement for the year ended 31 March 2018 was published during the year, since year end we have published our statement for FY19. We have continued to look at our due diligence processes in this area to ensure we are complying with the law but above all doing the right thing in accordance with our values. Our Modern Slavery statement can be found at ao-world.com

We also have in place a formal anti-bribery policy and whistleblowing procedures.

AO Recycling

Repic is committed to offering producers and retailers of electronic appliances responsible and sustainable options for meeting their obligations under WEEE compliance regulations. We do so by working with the best recycling and waste management specialists in the UK. AO's recycling operation has set a new standard for fridge recovery rates. The fridge recycling sector has been crying out for new investment in recent years and AO's entry into the market is a welcome development. It will play a major part in helping our members to meet the spirit and letter of the regulations and will help the UK to meet its WEEE recycling targets.

Mark Burrows-Smith
Chief Executive Officer, Repic.

Building on our environmental credentials

Over the past 12 months we have continued to work hard on how, as a business, we can increase the number of fridges being responsibility recycled in the UK. We have continued to strive to take responsibility for our customers' waste electrical appliances and to make it easier for our customers to recycle and have peace of mind that it will be done to a high standard.

This waste stream continues to present a major problem in the UK, as we continue as a country to throw away 1.4 million tonnes of WEEE annually. When we launched AO Recycling in 2017, we did so to meet some of these challenges head-on and to take a lead on the issue of WEEE recycling. Our state-of-the-art recycling facility at Telford in Shropshire has set new standards for WEEE reprocessing with high levels of recyclate, gas, oil and refrigerant recovery. With this plant we promised to recycle 700,000 fridges a year and we are pleased to announce that we exceeded this number last year. The plant was also recognised with the coveted WEEELABEX certification for its cooling reprocessing.

As well as this we have continued to grow our recycling operation in other ways, meaning we can process more of our customers fridges. We plan to build a second fridge recycling plant in the South East of England which will mean we will be able to recycle even more WEEE items a year across the two sites. This year we commenced building a plastics refinement plant in Telford which will give us the ability to extract more value out of the plastic we collect and we have also built the UK's only ammonia 'mobile' fridge processing plant.

Energy-efficient operations

We aim to run our operations with a strong focus on environmental impact, fuel management and operational efficiency, and constantly seek at both a corporate and local level to help improve our performance in all areas.

In order to drive energy efficiencies:

— our home delivery fleet comprises 3.5 tonne "Hi-Cube" trucks – these trucks are lighter and have a greater space and weight capacity;
— we have opened three additional outbases in the UK during the year to service demand and improve the efficiency of our fleet, taking our total to 17; and
— we also try to maximise our fuel efficiencies through the use of vehicle telematics, and, for example, by employing double-decker trunking so that we can deliver more products in one go to our outbases.

Greenhouse Gas Emissions Statement

As AO is listed on the London Stock Exchange we are required to measure and report our direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The methodology used to calculate our emissions is based on the Greenhouse Gas Protocol Corporate Standard and emissions reported correspond with our financial year. This year we have reported on all material emissions from both our owned and leased assets for which we are responsible across the UK, Germany and the Netherlands (the prior year period included less than one month of trading from the Netherlands). Emission factors used are from UK Government (Defra) conversion factor guidance current for the year reported, with the exception of Germany and the Netherlands, for which current conversion, factors were unavailable and therefore UK equivalent CO_2 factors have been used. Any changes in factors between the current and prior year reporting periods are considered minimal.

Our emissions predominately arise from the fuel used in the vehicles we use to deliver orders to customers and from gas combustion and electricity used at our offices, national delivery centres and outbases and our recycling operations.

In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used revenue as our intensity ratio as this is a relevant indication of our growth and is aligned with our business strategy.

Greenhouse Gas Emissions data

	Tonnes of CO_2e*	
Year ending 31 March	**2019**	**2018**
Emissions from operations and combustion of fuel (Scope 1)	27,892	25,608
Emissions from energy usage (Scope 2)	4,098	4,260
Total	**31,990**	**29,868**
Intensity ratio:		
Tonnes of CO_2e per £m of revenue	35.45	37.48

Scope 1 comprises vehicle emissions in relation to the delivery of orders to customers and operational visits and combustion of fuel (gas).

Scope 2 comprises our energy consumption in buildings including at our recycling operations (electricity, heat, steam and cooling).

* CO_2e conversion factors in respect of gas and electricity for the Group's German and Netherlands operations for the current year were unavailable therefore UK equivalent CO_2 factors have been used.

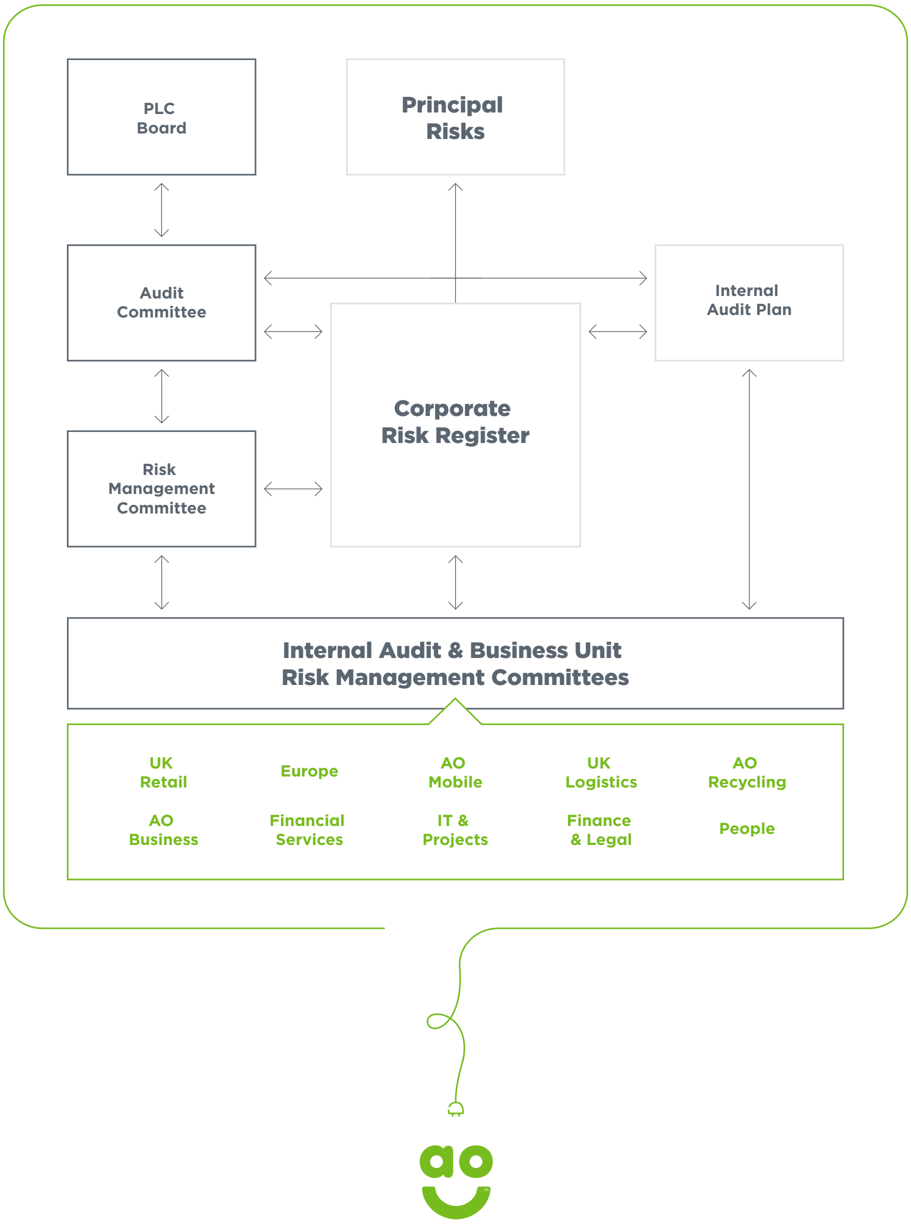
John Roberts
Founder and Chief Executive Officer

How we manage our risks

In common with many businesses, AO faces a broad range of risks due to the scale and nature of our operations.

These risks have varying likelihoods and impacts and range from operational risks in our day-to-day activities; strategic risks due to our high growth and international expansion strategy and external factors such as the market environment; and legal risks given the regulatory frameworks to which we are subject. Effective risk management allows us to identify, appropriately monitor and, to the extent possible, mitigate these risks in line with our risk appetite so that we can deliver our strategic objectives and protect value for our key stakeholders.

How we manage risks
We have developed a risk management framework with policies in place for identifying and addressing risks and with clearly defined lines of responsibility, accountability and delegation of authority.



Risk identification and assessment

Our risk register covers many risks that could affect our business, customers, supply chain and communities. We have a formal risk identification and management process to ensure that risks from our day-to-day operations in all of our business units and from the general economy and our sectors, are continually identified, evaluated and, where possible, mitigated throughout all of our operations. Our Internal Audit function meets with the senior team of each of our business units on a quarterly basis to assess new and existing risks, how these are being mitigated and how changes from within that business unit, or the wider Group or even at a macro level, may impact them. Each business unit has its own risk register, assessing the likelihood and impact of the relevant risks. These feed into our Group Corporate Risk Register ("CRR") from which the Risk Management Committee ("RMC") and the Board can assess the principal risks faced buy the business.

Our RMC, in which our Executives participate, meets regularly to review the Business Unit Risks, the status of the existing CRR and whether all risks are still current and relevant, and to appraise newly identified risks to determine whether these impact existing risks or require inclusion on the CRR in their own right. The review includes an assessment of how each risk is being mitigated, its inherent and residual risk and any changes. The likelihood and impact of each risk is assessed against the Group's Risk Assessment matrix which determines its risk factor and resulting risk category which ranges from minimal to aggressive. This is then balanced with an "intuitive" assessment: Do these scores look right both from an individual perspective and comparatively? Are we missing anything? This process allows us to regularly understand the strength and performance of the controls in place and to address any potential gaps and weaknesses.

The CRR is reviewed by the Audit Committee at least annually and it is notified of any significant changes in perceived risk as appropriate. Individual risks which are considered to be AO's principal risks are reviewed by the Board annually and assessed against the Group's risk appetite and capacity. The Audit Committee annually appraises the Group's Risk Management and Internal Control Framework and makes a recommendation to the Board as to its effectiveness.

Whilst our risk management processes work well, the programme can only provide reasonable, not absolute assurance that key risks are managed at an acceptable level.

Risk appetite

Overall, the Group has a "balanced" approach to risk taking; we will not be unduly aggressive with our risk taking but, being mindful of our distinct appetite for strategic, operational and legal risk, we may accept a number of significant risks at any one time in order to foster innovation and to facilitate growth. We recognise that it is not possible or necessarily desirable to eliminate some of the risks inherent in our activities. However, these must be reviewed against the assessment of other principal risks to ensure that the level of net risk remains within the overall accepted risk appetite. For example, where we have already accepted an aggressive or material risk, this would then limit the acceptance of additional material risks.

The Risk Appetite Statement is reviewed annually, in line with the strategic direction of the Group, recent experience and the regulatory environment.

This year's achievement and future actions

This year we have continued to evolve our risk management processes,to ensure that appropriate risk management is embedded in all areas of the business and that a consistent approach to risk is taken.

The key development this year was the creation of risk registers at business unit level.

We noted that there were some challenges with effectively operating a Group wide assurance framework that did not accurately reflect the significance at business unit level and felt that there was potentially a lack of business unit ownership of risk due to risk owners being at chief officer level only. Further we were aware that risk maturity was not consistent across the Group and in some cases there was a lack of risk awareness and understanding.

The benefits of a business unit level approach, we believe, are as follows:

- the two-way relationship between the Business Unit Risk Registers and Corporate Risk Register will improve key risk identification and accuracy of assessment/risk scoring (top down & bottom up approach);
- reduce the risk of missing risk themes across business units or one-off risks, when focusing on Group risk only;
- improved content for the Risk Management Committee meeting, supported by RMC sub-committees;
- improved risk ownership and accountability at business unit level;
- ability to recognise and improve risk maturity at each business level as well as across the Group;
- ensures the Internal Audit plan remains risk-based and relevant; and
- enables structured risk discussion outside of the Internal Audit cycle.

A further key development has been the roll out of our risk management procedures to our newly acquired company "Mobile Phones Direct Ltd". Risk factors relating to the acquisition and also to the business itself were set out in the circular to shareholders dated 9 November 2018 (which can be found at ao-world.com). We have no reason to believe that these risks have changed nor are aware of any additional risks; indeed the majority of risks face by the AO Mobile business unit are risks faced by the AO Retail business unit where best practice on risk mitigation and strategies can be shared.

We have also spent time understanding where we are currently acting outside our risk appetite and also where we could improve risk mitigation; debating whether these are conscious decisions or where action plans need to be put in place.

Brexit Focus

In addition, we have created a specific Brexit Risk Committee ("BRC"), focusing on the risks and challenges AO may face following a disorderly exit from membership of the European Union. The BRC comprises members from our trading and supply chain teams, people leaders, finance and legal teams.

We see our key Brexit risks, as follows:

— Consumer/Business Confidence: Uncertainty in the economy has and may continue to reduce consumer confidence and affect demand, particularly for the more "considered" (as opposed to "distressed") purchase and may also have an effect on the housing market, to which our MDA sales bear some correlation.
— Increased Costs: Whilst all our product purchases are bought in local currency (minimising the effects of the weakening of the pound against the Euro and Dollar), the increase in our suppliers' supply chain costs have in many cases been passed on to the Group and this may continue. We need to remain competitive on price and, if our competitors do not pass price increases on (either because they have longer term trade deals or decide to absorb some of the price increases themselves) this may hamper our profitability in the short term.
— Supply Chain Friction: Friction in the supply chain arising from increased border control could affect our availability proposition or drive the need for us to maintain increased stock levels to keep such effects on our availability proposition as minimal as possible.
— People: We are cognisant of the likely effect a hard Brexit could have on the free movement of people and therefore the cost of labour particularly in our logistics and recycling businesses.
— European Investment: Should Brexit further weaken the Pound against the Euro our investment in the Europe segment would become more expensive to fund.

We have driven some risk mitigation actions, so far as we can – including purchasing more stock to alleviate friction issues, working with suppliers to understand the key risks they face, currency hedging for the purchase of our new plastic plant, analysing our workforce and helping them to understand how they may be affected and considering the restructure of our corporate Group to maintain the viability of our German branch.

Complementing our risk analysis work, a number of specific projects have continued from the previous year. These include:

— Our ongoing GDPR programme; we have performed an extensive audit of our data processing activities; completed privacy impact assessments and legitimate interest assessments, revisited the basis on which we market to our customers, redefined retention policies, updated privacy policies and rolled out training across the Group. We have also enhanced our IT security and improved access controls.
— Establishing a team to monitor the current political and legal environment around worker status; including analysing recommendations of the Taylor Review and what this may mean for our driver model and participating in BEIS consultation on this issue.
— Reinforcing our culture with purpose and values workshops and resetting our mindset on fast-paced growth and innovation.

Principal risks

As we set out last year, the principal risks we face can be categorised as follows: Culture and People; Brand Recognition and Damage; European Expansion; IT Systems Resilience; Business Interruption; Compliance with Laws and Regulation; the UK Electricals Market and Key Commercial Relationships. The Key Commercial Relationship risk that we set out last year covered our dependency on key suppliers and partners and the risk that a breakdown in such relationships could bring. It also included the ability to achieve favourable terms with suppliers and in particular the ability for suppliers to continue to obtain credit insurance in relation to the Group's debts. As we've gone through the year, cognisant of our cash outflow and cash requirements over the next three years, coupled with a tightening of the credit insurance market, we feel "Funding and Liquidity" should be set out as a standalone principal risk. Other principal risk categories remain broadly unchanged.

For details on all of our principal risks, how we try to mitigate these and any changes we have seen over the year, please see the table overleaf:

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Culture and People **Impact on strategic objectives:** — Culture — Customers — Competencies	Culture is a key ingredient in the success of the business and a unique differentiator from our competitors. If we fail to maintain the culture in conjunction with our growth this could affect all areas of the business from our ability to attract customers, our dealings with suppliers and the way we deliver. We rely on our senior leadership team to provide strategic direction to the business. Significant erosion of this team would have a material impact on our strategy being realised.	— AO culture is supported by a wide range of tools, workshops and events with a dedicated employee events team — The group management team have a shared responsibility to drive culture throughout the business on the basis of AO's values — Senior employees continue to receive attractive remuneration packages and we have redesigned our Incentive package to improve retention — Strengthened operational management teams in each business unit give the benefit of localised decision making whilst global ownership and engagement helps instil the culture and reduces reliance on individuals — Some succession planning is in place	**Risk decrease** Our Purpose work over the previous year has helped cement our mission and values and, since the change in CEO, we have reset the mindset of our key people with the aim of returning to a truly innovative and high growth business, whilst maintaining excellent standards of customer service. We have also appointed a Chief People Officer to our Executive Committee who will be the driver of a number of culture focused activities and also succession planning. Further, Jacqueline de Rojas has been appointed as our People Champion, and will be the non-executive board member designated to ensuring the voice of our people is heard at the Board table.
European Expansion **Impact on strategic objectives:** — Customers — Competencies	Expanding into new territories is a key part of our strategy. Failure in these territories would limit our long-term growth and negatively impact the Group's finances.	— Expansion into new territories is only undertaken after extensive research — Expansion leverages AO's existing UK online retailing expertise and experience that has been built up over many years — Capital requirements are managed in stages — Specific targets are in place for new territories to enable focus on objectives and measurement of performance	**Risk increase** We have had challenges in Europe over the past year, and whilst we have made some progress, it is behind where we would expect, particularly with product margin. The time to recruit high quality e-commerce expertise has been longer than anticipated. Consequently less progress has been made in terms of the ongoing cash requirements to this division than we had anticipated, which is affecting the wider Group. We have made management changes accordingly and are providing support from the UK business to mitigate this. The e-commerce expertise is now in place and getting traction supported by UK experience. We expect these changes, in addition to a Group rather than territory approach, to create a meaningful improvement in the year ahead.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Brand Recognition and Damage **Impact on strategic objectives:** — Customers	Damage to our brand or failing to achieve growing recognition would lead to a reduction in customer loyalty, a failure to attract new customers or suppliers or affect existing relationships.	— Ongoing marketing campaigns to raise brand awareness through different mediums — Rigorous monitoring of customer feedback through quality processes — In-house PR teams established to deal with press and events — There is a dedicated social media team in place to increase brand awareness and generate consumer interest in ao.com	**Risk decrease** High NPS and trustpilot/trusted-shop scores in the UK and in Europe show that our proposition resonates and customers continue to love our brand and we continue to enjoy strong repeat business in all our territories. A more diverse brand strategy (focusing less on TV and more on digital channels and evolving brand channels, such as the use of "influencers") is being implemented.
IT Systems Resilience and Agility **Impact on strategic objectives:** — Customers — Competencies	AO's main IT systems are interlinked and critical for ongoing operations. Therefore failure of one system may disrupt others. The majority of customer orders are taken through our website ao.com and therefore significant downtime as a result of a successful systems breach or failure would affect the ability to accept customer orders and may affect customer loyalty, AO's reputation or our competitive advantage and result in reduced growth. The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies or the loss of data relating to individuals may result in an ICO complaint and negative publicity.	— Physical and system controls in place to minimise data breaches — There is a continual improvement cycle in respect of access levels, housing of critical data, encryption and penetration testing for customer data — Software is rigorously tested and follows a robust release process before being deployed in live environment — Operation of the IT environment is continuously monitored and disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impacts — The AO website and internal network are protected by a firewall, a holistic view of routers and switches with potential for individual configuration change, frequently updated anti-virus and penetration testing	**Risk increase** The cyber threat landscape is constantly shifting and the year has seen an increase in untargeted phishing attacks. We have responded by introducing new mitigations and runbooks to provide a more robust response against these. We have also improved general security practices, following advice from the NCSC and our partners. Further, as we grow our business becomes more complex and so too the systems that support us. Whilst we proactively and continuously mitigate this, breaking systems down into smaller components that can be developed independently and removing unused features, the ability of the business to innovate will always outstrip our ability to change the systems.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Compliance with Laws and Regulation **Impact on strategic objectives:** — Customers — Competencies	Changes in regulations or compliance failures may affect our strategy or operations, in particular to the following areas: — Data protection — The basis upon which the Company offers and sells product protection plans or the basis upon which revenue from the sale of such plans is accounted for — Driver employment status — Health and Safety	— Regulatory developments are routinely monitored both in the UK and in Europe to ensure that potential changes are identified, assessed and appropriate action is taken — AO are supported by a Legal team who promote awareness and best practice and an Internal Audit team who provide assurance on compliance. These teams have been enhanced over the year to help assist the drive for fast-paced growth — Third-party legal advice is sought were necessary and any recommendations are implemented and subject to ongoing monitoring — AO's business is supported by a qualified Health and Safety team — Changes to the macro environment and legislation are monitored and implemented promptly	**No change overall** Continuing scrutiny of the "gig economy" and government consultation on employment status has increased the risk of legislation changing in this area. GPDR continues to pose potential challenges to working and marketing practices. Whilst we are working through these and designing solutions, and implementing better controls there is much to do particularly as we now have an additional retail business in the Group following the acquisition of Mobile Phones Direct. We have transitioned the legal form of our product protection plans from being purely service backed to insurance or a hybrid insurance and service plan. Whilst this increases compliance work around the sale of the product, going forward the risk of a challenge on legal form of the plan should cease to be relevant.
Business Interruption **Impact on strategic objectives:** — Customers — Countries	A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centre in each of the UK and Germany, may affect the ongoing performance of our operations and negatively impact the Group's finances and our customers.	— Two NDCs in the UK reduce reliance on any one distribution centre and in Germany the distribution centre is separated into chambers to reduce the impact of fire or damage — Dedicated engineering teams on-site with daily maintenance programmes to support the continued operation of the NDCs and Head Office — A number of standalone controls are in place to mitigate a major event occurring at one of the Group's sites — Enhanced business continuity planning continues — Insurance policies are also in place to further mitigate this risk	**No change**

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
UK electricals market and Brexit **Impact on strategic objectives:** — Customers — Culture	Uncertainty in the UK economy following the outcome of the EU Referendum (Brexit), the risk of inflation and the dampening of consumer confidence may affect the ability of the Group to maintain sales growth. Controls on the freedom of movement of people could add friction in to the supply chain. Controls on the freedom of movement of people may impact the availability of workers in the UK or the ability of our people to move freely between our UK business and our mainland Europe operations. Currency risk from profit and loss translation from Europe to the UK adds uncertainty. Reduced consumer demand drives increased competitor promotional activity.	— Customer proposition remains strong and continued migration to online shopping should soften macro-economic impacts — Robust relationships with suppliers and improved stock holding could mitigate impacts on lead times — Long-term recruitment planning underway to reduce potential for gaps in worker availability — We closely monitor competitor activity and have the ability to react quickly to ensure our proposition remains competitive — Brexit Risk Committee ("BRC") created to understand the risks we may face and to plan mitigation strategy	**Risk increase** Continued uncertainty in the economy and the increasing possibility of a "hard Brexit" has affected consumer confidence and therefore consumer demand, which in turn continues to drive competitive activity. Whilst we have done a considerable amount of work through the BRC, there is still much unknown on the true risks and costs of Brexit.
Key Commercial Relationships **Impact on strategic objectives:** — Customers — Competencies	The achievement of our strategy is partly dependent upon relations, support and the service provided by key suppliers. If there was failure on the part of the suppliers or partners or a breakdown in our relationship this would affect our proposition to the customer. Key suppliers include: — Manufacturers and Distributors — Delivery Providers — Plant and Information Technology Systems Suppliers. — Network Operators It also includes our relationship with D&G, whom we act for as agent in selling product protection plans. The risk includes the ability to achieve favourable terms, competitive rebates being agreed and the ability to attract premium brand suppliers to work with AO.	— There is ongoing management of relationships with key suppliers to ensure strong business relations — The increased strength of the ao.com brand has resulted in an improved negotiation position with existing key suppliers and potential new suppliers, however, we recognise that driving a fair bargain rather than a hard bargain will build long-lasting and fruitful relationships — We are careful to listen to the concerns of all suppliers and act accordingly, have regular meetings at both operational levels and strategic levels with key suppliers and put in place clear service level agreements to ensure suppliers have a good understanding of and are able to meet our expectations — In terms of rebates, these are formally agreed with suppliers via annual trading terms. Rebates for stretch targets are not included in financial reporting until the targets are achieved	**Risk decrease** Given the change in scope of this risk, with credit insurance now part of the funding an liquidity risk, the risk posed by Key Commercial Relationships as a stand-alone risk, has now deceased.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Funding and Liquidity **Impact on strategic objectives:** — Customers — Competencies	Our ambition is to have market leading and profitable businesses across our UK eco-system and roll out our UK model overseas. This requires continual substantial investment both in the UK and overseas. Excess profits and cash generated in the UK fund such European expansion. If the losses/cash outflow in Europe exceed the profits/cash generated in the UK we will continue to make an overall loss and continue to consume cash. This then affects our ability to fund European expansion and drive innovation and improvements in the UK. Further we are reliant on suppliers, both in the UK and overseas, selling goods to us on credit and they often obtain credit insurance in respects of our debts. If such credit insurance is withdrawn this could cause liquidity problems for the Group.	— Given the financial resources available to the Group (including the proceeds of the placing of shares carried out in 2017) and the Revolving Credit Facility in place we currently have sufficient funding and cash resources to continue to support UK growth and European expansion — Our three year plan models the impact of continued losses and cash outflow for the Europe businesses and in a number of different scenarios modelled we continue to viable – please refer to page 45	**New Risk**

Details on our significant accounting risks, namely the accounting in relation to product protection plans and commercial income Mobile Phones Direct Ltd acquisition accounting and Network Commission receivables are set out on page 73.

Assessment of Group's prospects

Viability assessment

In accordance with Code C.2.2 of the UK Corporate Governance Code 2016 ("the Code"), the Directors are required to assess the longer-term viability of the Company taking into account the principal risks facing the Company.

The Directors have considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 March 2022. This period was considered appropriate due to: the rapid growth plans of the Group and changes in its strategic opportunities; changes in the economic environment which may alter consumer demand patterns and the Group's business planning processes which cover this period and help to support the Board's assessment.

In making its assessment of the longer-term viability of the Group, the Board have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency, or liquidity. These risks and how they are mitigated are set out above on pages 37 to 44 and in the Corporate Governance Statement on page 73. The Directors have also reviewed the Group's annual and longer-term financial forecasts and have considered the resilience of the Group using sensitivity analysis to test these metrics over the three-year period. This analysis involves varying a number of main assumptions underlying the forecasts (including, without limitation revenue, margin working capital, debt funding availability and the ongoing nature of European operations), and evaluating the monetary impact of severe but plausible risk combinations and the likely degree of mitigating actions available to the Company over the three-year period if such risks did arise.

Based on the Company's current position and principal risks, together with the results of the assessment detailed above and the Group's risk management processes (see pages 37 to 44), internal controls (see page 70) and assuming that the refinancing of the Group's banking facilities (which expire in June 2021) is for materially the same amount and on similar terms, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Going concern statement

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 14 to 44. The financial position of the Company and its cash flows are described in the Chief Financial Officer's Review on pages 46 to 57. In addition, the notes to the financial statements include the Company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

Notwithstanding net current liabilities of £27.5m as at 31 March 2019, a loss for the year then ended of £17.0m and operating cash outflows for the year of £34.5m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its existing cash balances and the Revolving Credit Facility (RCF) of £56.1m (which is net of letters of credit and payment guarantees of £3.9m) to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Continued growth as we leverage our competencies.

AO,
let's go.

2019 performance at a glance

£902.5m
Group revenue up 13.3%

£(15.2)m
Group Operating Loss reduced by 6.5%

£27.4m
UK Adjusted EBITDA up 20.9%

€(31.3)m
European Adjusted EBITDA losses increased by 5.7%

Mark Higgins
Chief Financial Officer

Continued organic revenue growth enhanced by acquisition.

Mark Higgins
Chief Financial Officer

We have continued to grow our businesses in the UK and Europe during the year whilst diversifying the categories that we offer to our customers and leveraging the competencies that we've created. Group revenue increased by 13.3% to £902.5m. Year-on-year UK revenue was up 10.1% to £749.3m (up 5.7% on a like-for-like basis when excluding revenues from our newly acquired mobile phones business ("MPD")). Revenue from our European business was £153.2m/€173.3m, up 32.2% year-on-year on a constant currency basis.

Group Adjusted EBITDA losses for the period improved to £0.4m (2018: £3.4m), with the UK growing by 20.9% (including MPD) and by 14.3% (excluding MPD). Loss before tax was £18.9m (2018: £13.5m). Our Europe business increased Adjusted EBITDA losses by 6.4% year-on-year on a sterling basis (5.7% on a constant currency basis) reflecting cost pressures from reconfiguring driver scheduling arrangements in Germany and the impact of increased revenues with a negative gross margin.

We have incurred costs which we have classified as exceptional of £7.3m in FY19. These costs comprise exceptional share-based payment charges, certain restructuring costs, costs in relation to the acquisition of MPD together with charges for an onerous contract which we are unable to terminate in Germany. Further details of these are set out in the Financial Review on page 55.

The acquisition of MPD completed in December 2018 and we have been working towards integrating this operation into the Group. MPD delivered £30.0m of revenue since completion and contributed £1.5m to Adjusted EBITDA. The business has grown revenue and connections consistently in recent years. MPD is a successful standalone business but by utilising AO's market leading logistics, finance and recycling proposition and leveraging our e-commerce competencies we will be able to grow the business further.

MPD operates in a market that is rapidly changing, especially as the 5G rollout comes to the UK which will further drive sales in smart and connected "Internet of Things" devices, alongside the changing consumer trends to online purchasing and buying patterns. The combination of MPD and AO provides a scaled Mobile offering and should allow us to take advantage of this customer first, connected landscape for years to come.

UK growth has been driven by double-digit growth in all categories except MDA and we experienced pleasing levels of growth through marketplace channels and trade sales. Although we managed to maintain our share of our most mature category, MDA revenue was impacted by a decline in the overall market and a more limited than expected response to our TV marketing campaign. We have also experienced good growth in service revenues and commissions which includes commissions from the sale of network contracts from our acquired MPD business, insurance and finance.

Customers responded positively to AO's UK seasonal Black Friday offer. This peak trading period continues to be popular with our customers and we are pleased with our performance. Our offering of Black Friday deals over a longer time period in November was well received by customers, which also allowed for a smoother sales flow and improved margins.

We are targeting new clients in third-party logistics which will help drive further growth in FY20. We continue to grow recycling revenue as our fridge plant has been operational for a full year, we have commenced building a plastics recycling plant and we look to launch a further plant in this growth area.

Profitability in the UK has been driven by a reduction in advertising and marketing expenditure and as we leverage our infrastructure and people to drive efficiencies.

The performance of our Europe business over the last 12 months has been disappointing. Whilst we have delivered a good level of revenue growth, this has been achieved at the expense of profit and cash. Although it is still early days, the recent changes we have made to the senior leadership team and the injection of our UK talent and experience should help drive improved product margin, provide a focus on relevant and cost-effective acquisition channels and continue to reduce costs to deliver. However, there is much to do.

Net cash outflow for the period was £27.0m as we experienced an outflow of working capital due in part to the increase in our inventory levels as part of our Brexit contingency planning. Cash at 31 March 2019 was £28.9m. Total borrowings increased from £14.6m to £38.0m mainly reflecting the new term loan to fund the cash component of the acquisition cost of MPD. We continue to enjoy strong relationships with, and good support from, our supplier base. However, their ability to obtain suitable levels of credit insurance remains consistent with an overall negative view in the credit insurance market towards the UK and in particular businesses in the UK consumer sector. We are assessing a number of alternatives and options to protect, aid and support our business relationships with our suppliers in the face of any negative implications arising from the actions of credit insurers, with whom AO has no direct relationships.

Whilst we have seen a number of challenges in FY19, there is good momentum as we progress through FY20 and a number of opportunities to drive both revenue and profit lay before us.

Year ended 31 March	2019	2018	% change
Financial KPIs			
Group revenue (£m)	902.5	796.8	13.3%
UK revenue (£m)	749.3	680.8	10.1%
Europe revenue (€m)	173.3	131.2	32.2%
UK Adjusted EBITDA (£m)	27.4	22.6	20.9%
Europe Adjusted EBITDA losses (€m)	(31.3)	(29.6)	5.7%
Group Adjusted EBITDA (£m)	(0.4)	(3.4)	87.6%
Group Operating Loss (£m)	(15.2)	(16.2)	6.5%
Loss for the period	(17.0)	(13.3)	27.8%
Non-Financial KPIs			
Non-Financial KPIs, such as Customer Numbers and NPS scores are highlighted on page 23.			

Mark Higgins
Chief Financial Officer
3 June 2019

Trends and insights into our markets

Overview

Our growth strategy has two key facets; to grow in our existing markets and to open up new addressable markets. During the financial year we have delivered against both of these targets.

The guidance of our purpose; "to have the happiest customers" has supported our organic growth and online market share gains across categories in all territories.

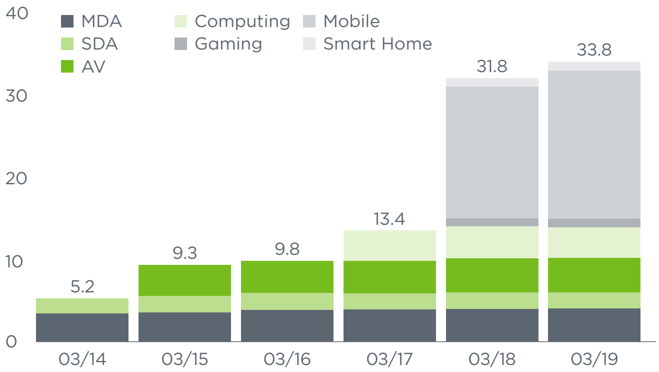
Our largest single category continues to be the retail of Major Domestic Appliances ("MDA") to consumers in the UK where we have not materially gained market share. As our newer categories gain scale our dependence on this single category reduces, although this does have a dilutive effect on gross margin.

We have broadened the range of categories and products that we offer to customers, both through acquisition and organic diversification. With the acquisition of Mobile Phones Direct Ltd we can now offer a full range of mobile postpay options to our UK customers and we have diversified into the DIY and Garden category shortly before year end. We have also significantly expanded upon our smart home, gaming and cameras category ranges and are leveraging our UK learnings into Europe.

Addressable markets:

UK:

AO Addressable Markets – UK[1]



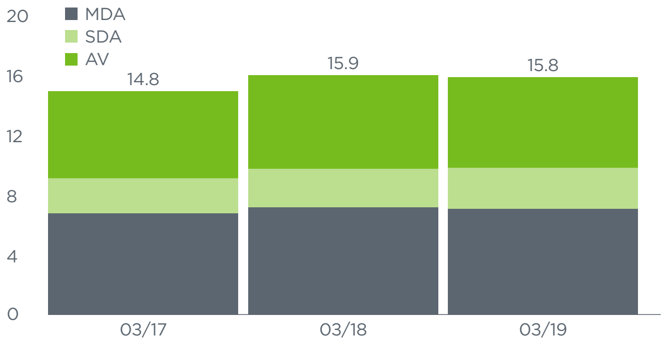
The acquisition of Mobile Phones Direct in December 2018 has unlocked a new, large and important mobile market for us and we are working closely with the local management team to develop AO Mobile and drive growth within this marketplace. The handset (and accessories) market is estimated at (£10.5bn)[1] and the contract (post pay) market is valued at (£7.3bn)[1]. We also see a growing Sim Free market of 20.8% YoY[1] although traditional contracts (new and upgrades) still account for the majority of the UK market.

The MDA market remains competitive and broadly flat and we anticipate that it will continue to be a challenging market in the coming year. During the year in the UK we have continued to expand our offering (in particular through our B2B and mobile businesses) and our addressable market for retail products across all categories has increased significantly to over £33.8bn[1] (up from £5.2bn at IPO[1]). The most recent category launch of Gardening and DIY in March 2019 has opened up a new marketplace estimated at £574m[1] (which is not included in the bar charts or above figures).

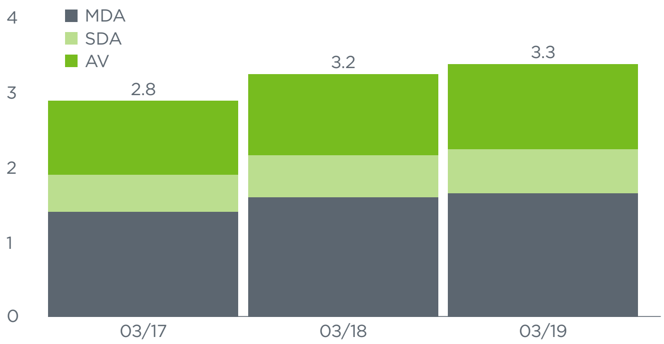
In the UK we have expanded down the MDA supply chain and from our in-house research we estimate the services market for MDA products to be around £2.2bn. Based on recent years, we expect the services markets for all categories to grow at a faster rate than pure retail and we believe that this offers significant opportunities for us during FY20 and beyond.

Europe:

AO Addressable Markets – Germany[1]



AO Addressable Markets – Netherlands[1]



In Germany and the Netherlands, we are live with MDA, SDA and AV and the addressable retail product market across these categories is around £15.8bn[1] in Germany and £3.3bn[1] in the Netherlands, giving a total market of around £19bn in our current European territories.

Across all current territories we now have a total addressable retail product market of over £52.9bn[1] and this figure should continue to grow as we roll out new categories across the UK and Europe. This market sizing does not include the additional services markets which we believe to be a significant opportunity for us going forward.

1 GfK, £bn inc VAT

Market growth drivers and trends

Demographic trends

The combined population across our current territories (the UK, Germany and the Netherlands) is over 166 million[1] living in over 76 million households[2]. The total population in our three territories is forecast to grow by 1.3% by 2025 which provides a large and relatively stable future market volume especially when we note from internal research that over 60% of our customers' MDA purchases are distressed.

Demographic trends – References:
1 World Population Review, 2019
2 Statista, 2017

Economic and political environment

Political uncertainty and deteriorating economic conditions since the Brexit vote in summer 2016 have led to muted growth in household available cash in the UK, a slowdown in household spending, decreasing savings rates and a stalling housing market. We continue to be faced with a low growth GDP environment in each of our territories which has led to a challenging year. Over the last year, UK GDP has grown by c1.5%[1] and consumer spending increased by c1.8%[2]. Research has shown that budgets for big-ticket items are being buoyed by borrowing which continues to grow but at a slower rate than previously experienced. Slow GDP growth is forecast to continue going into 2019 (1.7%)[1].

Germany's GDP is projected to grow into 2019[1] due to growth in the labour market, low levels of unemployment, higher wage growth and stronger exports[3]. The unemployment rate is projected to decline further to 3.2% by 2020[4].

In the Netherlands, GDP is expected to see moderate growth[1] in the coming few years due to slowing private consumption and investment. The unemployment rate was 4.8% in 2018 and has been declining since 2014[4] and low interest rates are supporting growth in house prices. High levels of household debt and high exposure to mortgages has hampered the ability of banks to raise external funding which in turn is contributing vulnerabilities in the financial system.

Economic and political environment – References:
1 Country Economy
2 ONS
3 OECD
4 www.theglobaleconomy.com/Germany/unemployment_outlook/
5 Statista

Consumer confidence and spending

UK

Uncertainty created by Brexit has significantly impacted consumer confidence in the UK. During most of 2018 the consumer confidence indicator measured at between -7 to -10[1] before increasing to -13 and -14[1] in November and December, respectively. Although consumer confidence was stable in January and February 2019, the indicator has remained negative and confidence at March 2019 is still six points lower than a year ago. Despite its recent low levels, consumer confidence is forecast to grow by 2% during 2019.

In part, low consumer confidence has been driven by the inflationary impact of currency movements on consumer products, with real earnings growth taking some time to catch up. Employment rates are good and 2018 saw the start of rising wages[2]. According to ONS, wages grew by 3.4% (excluding bonuses) in Q4 2018, which is 1.1% above the inflation rate for the same period. If wages continue to rise higher than the inflation rate in 2019 this should in turn lead to higher levels of consumer spending.

Germany

According to GfK, consumer confidence during 2018 within Germany remained relatively stable (between 10.4 to 10.9) and the growth in confidence in 2019 was supported by a solid job market and rising wages, despite fears of potential economic headwinds.

The Netherlands

For the first half of 2018 the Dutch consumer confidence index was above 20 but between July 2018 to March 2019[3] it has fallen month on month. Consumers are becoming more negative and less confident about the economic climate and according to the national statistics agency CBS, customers will be less willing to make major purchases.

Consumer confidence and spending – Reference:
1 GfK Consumer Confidence index
2 ONS
3 CBS

Housing Market

AO's reliance on MDA continues to reduce as we diversify into new categories and increase sales within our other categories. We note that MDA purchases are strongly correlated with housing transactions[2], mortgage[1] (and remortgage[4]) approvals and planning permissions[3]. Mortgage approvals dropped by 2% YoY during 2018 when compared to the prior year[1] and MDA volumes in the overall UK market were seen to reduce by 3% over the same period[7]. Given the lag between housing transactions and MDA sales, we hope to use this information to help predict future MDA trends to proactively position ourselves ahead of the market.

MDA is a relatively expensive item and big-ticket item and, in particular has been hit hard by political and economic events. Consumers' appetite to spend on big ticket items dropped during most of 2017 and 2018, affected by Brexit and other challenges within the economy. Through the period we have supported customers through price-match commitments and trade up options to support transaction volumes and we are also close to going live with our new financing facility.

Within the UK there has been a reduction in household saving rates and consumers are still using credit to fund purchases. Saving rates within Germany (c.18% of gross disposable income) and Netherlands (c.15%) are significantly higher than the UK (c.4%)[5] although Eurostat data suggests that there is a change in Dutch consumers' behaviour towards saving and household saving rates have gradually declined over the last 12 months[6]. Interest rates are expected to remain low which may encourage additional spending on credit and provide some support from current market challenges in the medium term.

Housing Market – References:
1 Bank of England
2 HM Revenue & Customs
3 Ministry of Housing, Communities & Local Government
4 The Building Societies Association (BSA)
5 *Based on components (gross saving and gross disposable income) calculated as four quarter cumulated sums (Eurostat). The gross household saving rate is calculated by dividing gross saving by gross disposable income, the latter being adjusted for the change in the net equity of households in pension funds reserves
6 Eurostat
7 GfK

Market Trends

Black Friday

During UK Black Friday 2018 the total online spend was up 7.3% YoY to £1.49bn[1] and 61% of sales were made online and 39% offline. Of the 61% of sales made online, 59% of these were made on a mobile device, up 6% YoY[2]. To capitalise on this growing trend towards mobile purchasing, we helped support our mobile deals page by reducing the average loading time from 18 seconds to four seconds on both the UK and European websites. A navigation bar was also added at the top of the deals page to allow customers to quickly navigate through categories and quickly locate their desired products.

A change in UK shoppers buying patterns occurred during Black Friday 2018, with consumers purchasing across the week rather than waiting for the day itself. Purchases of high-cost electrical products occurred earlier in the week while sales on Black Friday itself grew by only 0.6% when compared to the previous year[2].

AO performed well during the run up to Black Friday, particularly within AV. Following the general market trend, sales on the actual day were down YoY as we successfully spread sales throughout the period.

Black Friday – References:
1 IMRG
2 Retail Week

Consumer trends

Consumers have more options than ever when it comes to price, choice and value with convenience and service playing an ever-growing part in the eventual selection of a retailer. From aftersales support to end-to-end installation services, this can be a crucial part of a purchase decision, particularly for higher value items. Efficiencies from our in-house infrastructure are incredibly important in delivering additional benefits to customer proposition.

We have noted additional consumer trends during the Year:

— **Peer to peer** – The importance of reviews is increasing as is online content. Websites are an important stage in the research part of the purchasing journey and keeping ours relevant and up to date is a key part of our strategy.

— **CSR** – Has become a business practice standard. AO is still the only retailer in the market with specialist in-house white goods recycling capabilities and we have expansion plans in place during 2019 to increase our future recycling capabilities and capacity.

— **Social media** – Continues to be an important influencer in purchasing decisions as consumers are more than ever researching online and via this channel. We continue to be active on social media but additional opportunities for us exist in this area.

Technological trends and innovation

Our newer categories witnessed growth over the last 12 months and this is in line with overall market trends. One category in particular that is experiencing strong growth is the gaming market and for the year to March 2019 we grew our gaming sales significantly.

Another exciting area for future growth is smart home tech. Smart home has witnessed a rapid growth in recent years and in the UK the smart home market is estimated at £1bn.[1] Manufacturers are confident that smart and connected appliances are the next big thing although consumers are not yet fully aware of their benefits. We currently sell several smart product categories such MDA and home entertainment and we are continuingly looking to expand our range in this exciting new category. We see this as being a good opportunity as we look to expand our range in this area and capitalise on our logistics assets using the services of multi-skilled drivers.

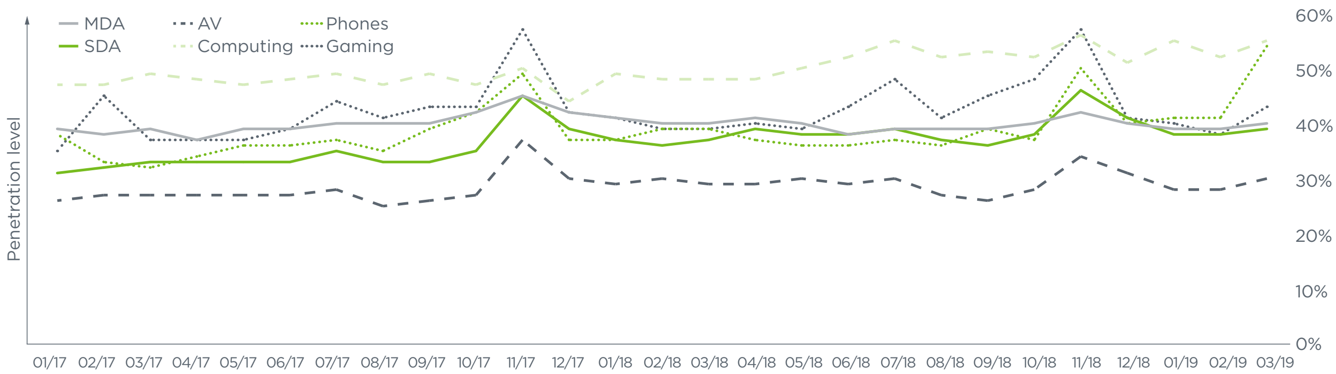
1 GfK, inc VAT

Online and multi-channel retailing

Online shopping is becoming more popular with consumers seeking convenient and time saving shopping journeys. Globally, the UK has the highest retail e-commerce sales as percentage of total retail sales. Online sales in the UK continue to grow more quickly than offline sales and accounted for 17% of the retail sales in the UK during 2018[1].

Online shopping in our other geographies are slightly behind the UK, and in Germany online sales stood at 11%[1] and were 14% in the Netherlands[1]. We expect the online market to continue to grow in our three territories which presents us with a fantastic opportunity. For example, Germany and the Netherlands are still 82% and 76% offline in MDA providing significant amounts of future growth potential.

Online penetration by category – UK



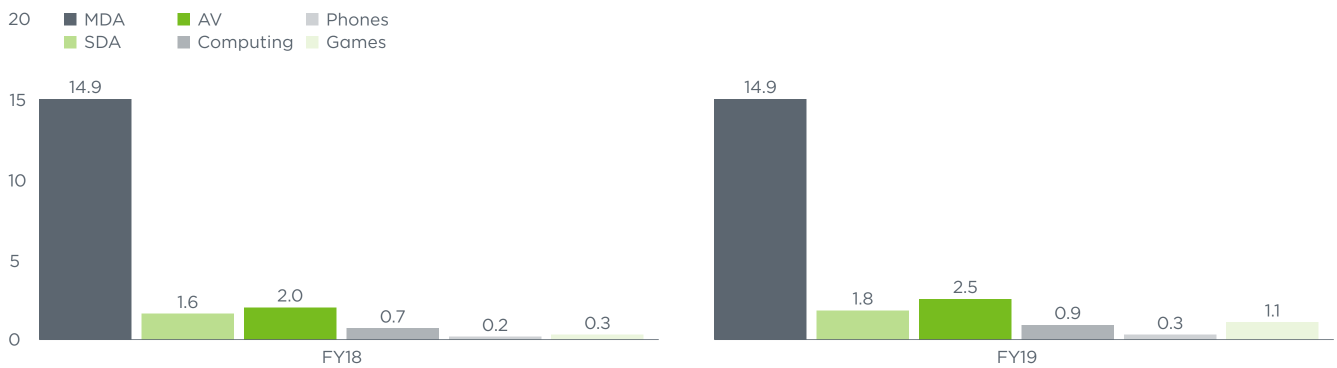
Online and multi-channel retailing References:
1 Euromonitor
2 GfK, inc VAT

Competitive environment

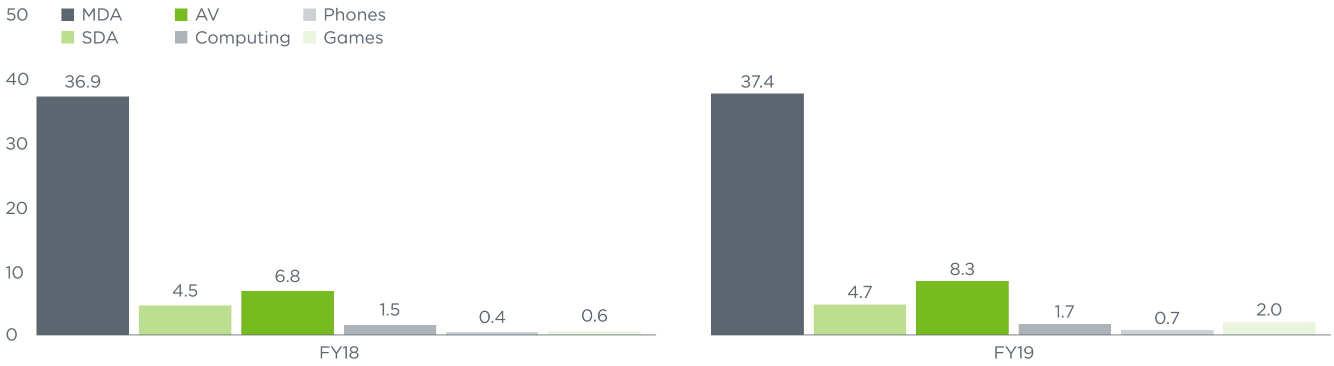
UK:

Competition in the online electrical market remains fierce and scale and expertise are becoming ever more important for retailers. Recently we have seen some larger generalists and smaller independents exit the market. During the year we have maintained or grown our market share on a product value basis across all categories and all territories as shown below:

AO Market share – Total UK market (%)[1]



AO Market share – Online UK market (%)[1]

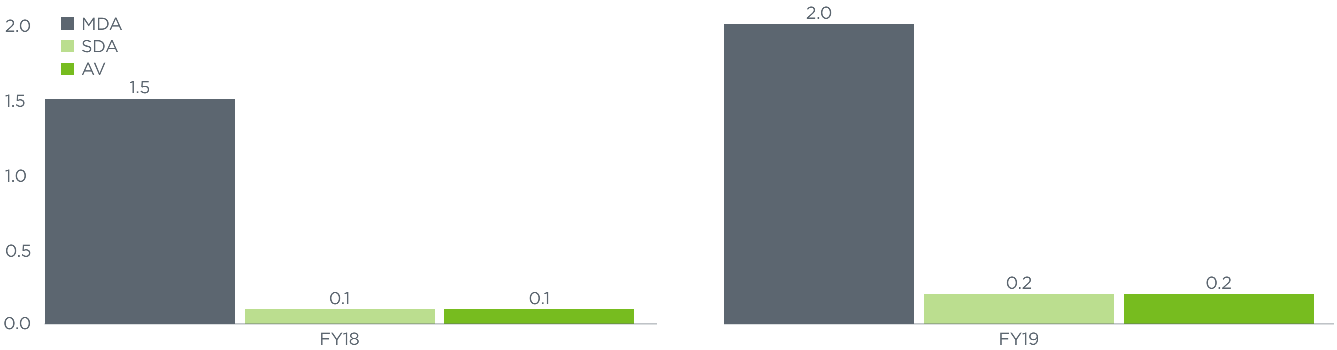


In the UK, AO's share in the total MDA market has been materially flat from 2018 to 2019.

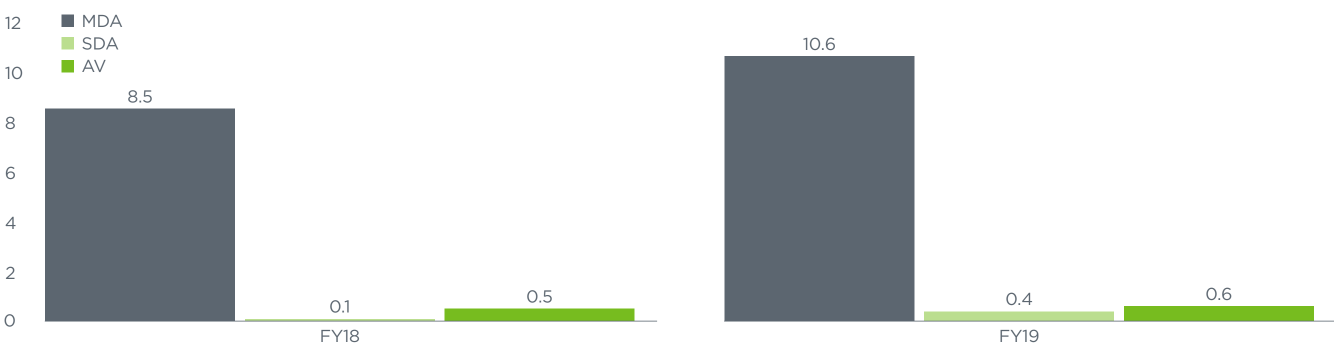
AO's share in other categories has grown quickly over the last few years and AV is now AO's second largest category in terms of online market share (increasing by 1.5% to over 8% of sales in FY19). As can be seen from the charts, share in other categories has continued to grow during the reporting period. AO's value share has historically been higher than our volume share as we sell less accessories and smaller items online than the general market.

Europe:

AO Market share – Total Germany market (%)[1]



AO Market share – Online Germany market (%)[1]



In Europe we have continued to grow within both the German and Netherlands markets. In Germany our online MDA market share increased to almost 11% for FY19 and online market shares in SDA and AV have also increased during the year. During the year our online MDA market share in the Netherlands increased to over 6% with shares in SDA and AV also increasing.

Marketplaces are becoming prevalent in European online retail but appear to be having relatively limited impact on our core categories where the purchasing journey is complex and two-man delivery and installation are required. Scale, expertise and agility are key for us and flexibility in our supply chain, logistics set up, channels of distribution are necessary to meet our consumers' demands.

1 GfK, inc VAT

Financial Review

Revenue (see Table 1)
For the year ended 31 March 2019 total Group revenue increased by 13.3% to £902.5m (2018: £796.8m).

Overall revenue in the UK increased by 10.1% to £749.3m (2018: £680.8m) up c.5.7% year on year excluding the impact of the post-acquisition revenue from MPD. Product revenue growth on our retail website was driven by our newer categories where we experienced double digit growth. Our marketplace channels and trade sales further added to product revenue across all categories. Revenue from ao.com reduced year on year following a more limited than expected response to our TV marketing campaign. This strategy has been reviewed to focus our investment in performance marketing, social channels, influencers and user experience on the website. We have been successful in driving revenue from marketplace channels (Amazon and eBay) which we believe are new customers to the Group and do not cannibalise traffic that would otherwise shop with ao.com. In addition, we continue to focus on our Business to Business (B2B) offering and this has been a key driver of our growth in the MDA category.

Service revenue increased by 15.1% compared to the previous year; reflecting improvements to the customer propositions, for example the choice of timeslots and increased premium installations available to more locations, that have resonated well with our customers. Black Friday continues to be a major sales event in our retail calendar. This year our promotional period extended over three weeks, meaning our great deals were able to reach even more customers than ever before.

Our acquisition of MPD delivered £30.0m of revenue in the year, representing most of the significant increase year on year in commission revenue. We continue to be excited about this opportunity and look forward to AO Mobile launching later in FY20. Customers of ao.com continue to value the warranty products and during the year we migrated our product from a warranty to a hybrid insurance product offering greater regulatory protection. We are pleased how this migration progressed involving a full base contact exercise with a low proportion of plans cancelled. The reduction of third-party logistics revenue year on year reflects the loss of the contract to deliver goods for Argos which has previously been disclosed. During the year we won a new contract with the furniture retailer The Cotswold Company and are targeting new client growth i1Y20. Recycling revenue increased by 22.2% as the Group benefited from the first full year of operation of our fridge recycling plant in Telford.

In Europe sales from our German website AO.de and our Netherlands website AO.nl, generated revenues, on a constant currency basis[1], of €173.3m (2018: €131.2m), an increase of 32.2% which equates to £153.2m (2018: £116.0m) on a reported currency basis. Revenue growth in this segment is a fundamental component of the journey to profitability. Towards the end of the period we carried out a review of the various drivers of growth that have been employed to ensure that they are sustainable as we continue to grow. This has entailed reviewing our pricing policy where we have been undercutting the market and considering traffic channels (particularly marketplaces) where cost to acquire traffic is in excess of our traditional website acquisition costs.

1 Where euro amounts are disclosed in these financial statements, they represent the actual euro revenue, costs or loss for the period. The term constant currency is used by the Group to describe the increase or decrease as actual euro amounts recorded for the relevant period. Providing this information eliminates the impact of foreign exchange movements.

In line with the requirements of IFRS 15, the Group has disaggregated its revenue into the main business lines and these are shown in Table 1 below:

Gross margin (see Table 2)
Gross margin for the Group, which includes product margin, delivery costs, commissions from selling insurance plans and other ancillaries (which attract a higher margin as a percentage of revenue than product sales), reduced to 17.0% for the reporting period. This was a fall of 0.8ppts against the prior year with total gross profit increasing by 7.5% to £152.3m (2018: £141.8m).

Table 1:

			2019			2018			% change
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Product revenue	628.4	151.1	779.5	600.2	114.4	714.6	*4.7%*	*32.0%*	*9.1%*
Service revenue	30.1	1.6	31.8	26.2	1.4	27.6	*14.8%*	*20.2%*	*15.1%*
Commission revenue	61.2	0.3	61.5	26.6	0.1	26.7	*130.0%*	*180.9%*	*130.2%*
Third party logistics	15.3	0.0	15.3	16.0	0.0	16.0	*(4.2)%*	–	*(4.2)%*
Recycling	14.3	0.1	14.5	11.7	0.1	11.8	*22.2%*	*17.3%*	*22.2%*
Revenue	749.3	153.2	902.5	680.8	116.0	796.8	*10.1%*	*32.1%*	*13.3%*

Table 2:

			2019			2018			% change
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Gross profit/(loss)	154.9	(2.6)	152.3	144.6	(2.8)	141.8	7.1%	-10.1%	7.5%
Gross margin %	20.7%	-1.7%	17.0%	21.3%	-2.5%	17.8%	-0.6ppts	0.8ppts	-0.8ppts

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Gross Margin in the UK business fell slightly to 20.7%. As in previous periods, the increasing share of total revenue attributable to newer categories (including MPD), as well as that of business to business sales has had a dilutive effect on Gross Margin. Individual product margins in our retail business have increased in all categories. We would expect this effect to increase further once the full year effect of MPD is included in the Income Statement in FY20. The dynamics of the mobile business have a lower gross margin, but a corresponding lower cost to serve.

In Europe the gross margin improved slightly to a loss of £2.6m (2018: £2.8m loss) and gross margin improved to –1.7% (2018: -2.5%). Whilst this was an improvement it was not to the degree that we had expected to achieve. During the summer we encountered some issues with local legislation in Germany regarding driver hours, and whilst popular with the drivers themselves we were obliged to move from a four day working week to a five day week. This resulted in a number of short-term operational issues that lasted for a period of about six weeks and also built some inefficiency in to the longer term model. During the first half of the year we made progress on our product margin but as we moved in to the second half this moved backwards as we were not able to achieve as much price support from the manufacturers, and we discounted product in order to drive volumes to achieve rebate targets. As we move in to FY20 we have rebased our pricing strategy in line with the UK approach and are negotiating pricing with manufacturers.

Selling, General & Administrative Expenses (“SG&A”)
(see Table 3)

UK SG&A expenses for the year to 31 March 2019 increased by 5.1% to £141.0m (2018: £134.3m) and represented 18.8% of sales (2018: 19.7%).

UK advertising and marketing expenditure as a percentage of revenue reduced from 4.2% to 3.0% In FY18 we sponsored Britain’s Got Talent in the early part of the year which took our advertising cost run rate in the comparator period above normal levels. During FY19 in the first half of the year we invested in the “Delivering Tomorrow” advertising campaign. This did not deliver the results that we had hoped for and so we reduced the level of expenditure on TV advertising in the second half of the year.

UK warehousing costs increased by £3.7m to £33.7m (2018: £30.0m) representing 4.5% of revenue (2018: 4.4%) as a result of the opening of three new outbases in the year. The addition of further outbases helps to reduce stem mileage thus creating efficiencies in delivery costs which are reflected in gross margin. As we continue to grow we should continue to achieve greater efficiencies due to scale from this physical structure. In addition, the first full year of activity at our Recycling facility in Telford has contributed to the year on year increase in warehousing costs.

UK other administration expenses increased by £8.2m to £78.9m (2018: £70.7m) and as a percentage of sales increased to 10.5% (2018: 10.4%). The increase largely related to increases in staff costs in our UK retail business as we invest to drive margin and to manage the increasing complexity of multiple categories. As we move forwards this is an area of focus for management to leverage the fixed cost base with scale.

In Europe our SG&A costs as a percentage of revenue reduced from 22.0% to 18.3% and totalled £28.0m (2018: £25.5m).

Europe advertising and marketing expenses increased by £1.1m to £5.9m in the 12 months to 31 March 2019 primarily due to increased acquisition costs to drive revenue although as a percentage of sales they decreased. Warehousing costs increased to £5.2m (2018: £4.3m) as we expanded the number of outbases from five to seven. Other administration expenses increased slightly to £16.8m (2018: £16.4m) but reduced significantly as a percentage of sales as the business sought to drive out some of the early set up inefficiencies.

Operating loss and Adjusted EBITDA (see Table 4)

Operating loss was £15.2m for the period decreasing by £1.0m against the prior year. However, when reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison, and it is a performance criteria for the purposes of both the Executive Management’s historic annual bonus and LTIP awards (along with other measures including revenue). Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Principles (“non-GAAP”)) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures. Operating profit is reconciled to Adjusted EBITDA as set out in Table 4 overleaf.

Table 3:

	2019			2018			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Advertising and marketing	22.3	5.9	28.2	28.4	4.8	33.2	-21.5%	24.8%	-14.8%
% of revenue	*3.0%*	*3.9%*	*3.1%*	*4.2%*	*4.1%*	*4.2%*			
Warehousing	33.7	5.2	38.9	30.0	4.3	34.3	12.5%	21.8%	13.7%
% of revenue	*4.5%*	*3.4%*	*4.3%*	*4.4%*	*3.7%*	*4.3%*			
Other administration	78.9	16.8	95.8	70.7	16.4	87.1	11.6%	2.1%	9.8%
% of revenue	*10.5%*	*11.0%*	*10.6%*	*10.4%*	*14.2%*	*11.0%*			
Adjustments[1]	6.1	0.1	6.2	5.2	0.1	5.3	17.5%	71.1%	18.0%
% of revenue	*0.8%*	*0.1%*	*0.7%*	*0.9%*	*0.0%*	*0.7%*			
Administrative expenses	**141.0**	**28.0**	**169.0**	**134.3**	**25.5**	**159.8**	**5.1%**	**9.8%**	**5.8%**
% of revenue	*18.8%*	*18.3%*	*18.7%*	*19.7%*	*22.2%*	*20.1%*			

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

1 Adjustments in the year to 31 March 2019 is defined by the Group as share-based payment charges attributable to exceptional LTIP awards, exceptional restructuring costs, costs relating to the acquisition of Mobile Phones Direct Limited and onerous contract costs which the Board consider one-off in nature. The year to 31 March 2018 included adjustments for exceptional LTIP awards, exceptional restructuring costs and post set up costs in relation to the European operation.

The adjustments are as follows:

Adjustments

Europe set-up costs
In the prior year, Europe set-up costs were costs incurred in connection with our European expansion strategy and our research into other countries along with strategic post "go-live" activity in AO.de and AO.nl.

Exceptional share-based payment charges
LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA.

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.

Exceptional restructuring costs
During the current and previous year and following the change in Chief Executive Officer, the Group has undertaken a restructure of its senior leadership team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be one-off in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.

Fees incurred on acquisition of MPD
During the current year, the Company acquired Mobile Phones Direct Limited. Fees in relation to the transaction were significant in nature and considered by management to be outside of the normal trading activity of the Group and have therefore been added back in arriving at Adjusted EBITDA.

Onerous contract
In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. During the current financial year, the performance of this contract has been reassessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and whilst management will explore routes to renegotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. As a consequence due to its size and the onerous nature of the contract, management consider this to be exceptional in nature and have added back the cost in the current year in arriving at Adjusted EBITDA.

Depreciation, amortisation and profit on disposal of fixed assets

These are non-cash costs in relation to the Group's tangible and intangible fixed assets which are added back to operating profit to arrive at EBITDA which is considered to be a relevant proxy for "cash operating profit".

Group Adjusted EBITDA losses reduced to £0.4m (2018: £3.4m losses) after allowing for £27.8m of Europe Adjusted EBITDA losses (2018: £26.0m). In local currency (removing the impact of foreign exchange movements), European losses increased to €31.3m (2018: €29.6m).

UK Adjusted EBITDA for the 12 months to 31 March 2019 was £27.4m (2018: £22.6m) with the key drivers explained above.

Taxation

The tax credit for the year was £1.9m (2018: £0.2m). The effective rate of tax for the year was 9.5% (2018: 1.9%).

The Group is subject to taxes in the UK, Germany and the Netherlands. The Group continues to be able to offset its German losses against profits within the UK through its registered branch structure in Germany. No overseas tax is attributable to Germany and the Netherlands as they continue to develop their operations.

Tax losses from prior years in Germany remain as carried forward losses and continue to be as not recognised for the purposes of deferred tax. However following the changes in the UK loss utilisation rules the tax losses created in the period that are not utilised have been carried forward and recognised for the purposes of deferred tax. The recognition of these losses is on the basis that the carried forward losses created in the period are anticipated to be used by the wider Group going forward following the changes in UK loss utilisation rules.
In addition, tax losses brought forward in AO Recycling are being utilised and therefore the deferred tax asset arising on the remaining tax losses carried forward at the end of the year have been treated as a recognised deferred tax asset as the entity will continue to utilise these losses going forward.

Our tax strategy can be found at www.ao.com/corporate.

Table 4:

	2019			2018			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Operating profit/(loss)	14.9	(30.1)	(15.2)	11.6	(27.8)	(16.2)	27.7%	-7.8%	6.5%
Add adjustments: Europe set-up costs	–	–	–	0.3	–	0.3	–	–	–
Non-cash share-based payments charge for exceptional LTIP awards	2.3	–	2.3	3.5	–	3.5	–	–	–
Senior leadership team restructuring costs	1.2	–	1.2	1.4	0.1	1.5	–	–	–
Fees incurred on acquisition of MPD	2.6	–	2.6	–	–	–	–	–	–
Onerous contract costs	–	1.2	1.2	–	–	–	–	–	–
Adjusted operating profit	**21.0**	**(28.9)**	**(7.9)**	**16.8**	**(27.7)**	**(10.9)**	24.6%	-3.9%	27.8%
Add: Depreciation and amortisation	6.4	1.1	7.5	5.8	1.8	7.6	9.4%	-38.9%	-0.7%
Less: Profit on disposal	–	–	–	–	(0.1)	(0.1)	n/a	n/a	n/a
Adjusted EBITDA	**27.4**	**(27.8)**	**(0.4)**	**22.6**	**(26.0)**	**(3.4)**	20.9%	-6.4%	87.6%
Adjusted EBITDA as % of revenue	3.7%	-18.1%	0.0%	3.3%	-22.5%	-0.4%	0.4ppts	4.4ppts	0.4ppts

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Retained loss for the year and loss per share

Retained loss for the year was £17.0m (2018: £13.3m). Basic loss per share was 3.78p (2018: 2.93p loss) which is negatively affected by a foreign exchange loss of £3.0m (2018: gain £1.1m) arising from intra-Group funding arrangements.

The foreign exchange (loss)/gain has arisen as a result of the movement in the exchange rate between sterling and the euro in the period. This has impacted the value of intra-Group loans held in GBP in the European entities and EUR loans in the UK giving rise to the £3.0m loss referenced above.

The table below shows the adjusted basic loss per share excluding the foreign exchange gain mentioned above.

Year ended 31 March (£m)	2019	2018
Loss		
Loss attributable to owners of the parent company	(17.5)	(13.4)
Foreign exchange gains on intra-Group loans	3.0	(1.1)
Adjusted loss attributable to owners of the parent company	(14.5)	(14.5)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	463,153,515	458,788,480
Potentially dilutive share options	6,447,240	1,885,206
Diluted weighted average number of shares	469,600,755	460,673,686
Loss per share (in pence)		
Basic loss per share	(3.78)	(2.93)
Diluted loss per share	(3.78)	(2.92)
Adjusted basic loss per share	(3.13)	(3.16)

As the impact of the potentially dilative shares does not give rise to a reduction in the loss per share, diluted loss per share has been restricted to the basic loss per share.

Cash resources and cash flow

Net cash balances at 31 March 2019 were £28.9m (2018: £56.0m). The reduction in cash is driven by an outflow of working capital of £27.0m (see below), capital expenditure and repayment of borrowings offset by the net inflows in relation to the acquisition of Mobile Phones Direct Limited.

Borrowings (which comprises bank borrowings and finance leases) increased to £38.0m (2018: £14.6m) resulting in net debt at 31 March 2019 of £9.0m (2018: funds £38.3m). The increase in borrowings in the year was mainly due to the new term loan of £24m used to partly fund the acquisition of Mobile Phones Direct Limited and a £3m term loan to partly fund the construction of the new plastics plant in our recycling business.

The Group continues to benefit from the availability of its £60m revolving credit facility with HSBC Bank plc, Lloyds Bank Plc and Barclays Bank Plc in the banking syndicate. The facility is available for general corporate purposes, including UK working capital movements, with the undrawn amount at 31 March 2019 being £56.1m. The amount utilised is in relation to letters of credit and payment guarantees.

Working capital (see Table 5)

At 31 March 2019, the Group had net current liabilities of £27.5m (31 March 2018: net current assets of £0.7m) principally as a result of the reductions in cash noted above and the timing of loan payments as we move into FY20.

Movements in working capital are set out in Table 5.

As at 31 March 2019, UK inventories were £60.7m (2018: £42.1m) reflecting an increase in sales volumes and an increase in stock as part of our Brexit mitigation risk planning. UK average stock days stay consistent against the prior year at 27 days (2018: 27 days).

UK trade and other receivables (both non-current and current) were £188.0m as at 31 March 2019 (2018: £91.5m) principally reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of the higher retail volumes and the accrued income relating to the commission receivable from the Mobile Network Operators following the acquisition of MPD.

Table 5:

	2019			2018		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Inventories	60.7	15.6	76.3	42.1	11.1	53.2
As % of COGS	10.2%	10.0%	10.2%	7.8%	9.3%	8.1%
Trade and other receivables	188.0	9.5	197.5	91.5	11.2	102.7
As a % of revenue	25.1%	6.2%	21.9%	13.4%	9.7%	12.9%
Trade and other payables	(223.1)	(14.0)	(237.1)	(140.9)	(15.1)	(156.0)
As a % of COGS	37.5%	9.0%	31.6%	26.3%	12.7%	23.8%
Net working capital	**25.7**	**11.1**	**36.8**	**(7.3)**	**7.2**	**(0.1)**
Change in net working capital	33.0	3.9	36.9	9.0	5.4	14.4

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

UK trade and other payables increased to £223.1m (2018: £140.9m) primarily reflecting the increased inventory noted above and the impact from the acquisition of Mobile Phones Direct Limited (increased trade payables and payments on account from the Mobile Network Operators).

At 31 March 2019, European inventories were £15.6m (2018: £11.1m) principally as a result of the increase in sales volumes in both territories during the year. Trade and other receivables reduced to £9.5m (2018: £11.2m) due principally to the timing of receipt of rebates.

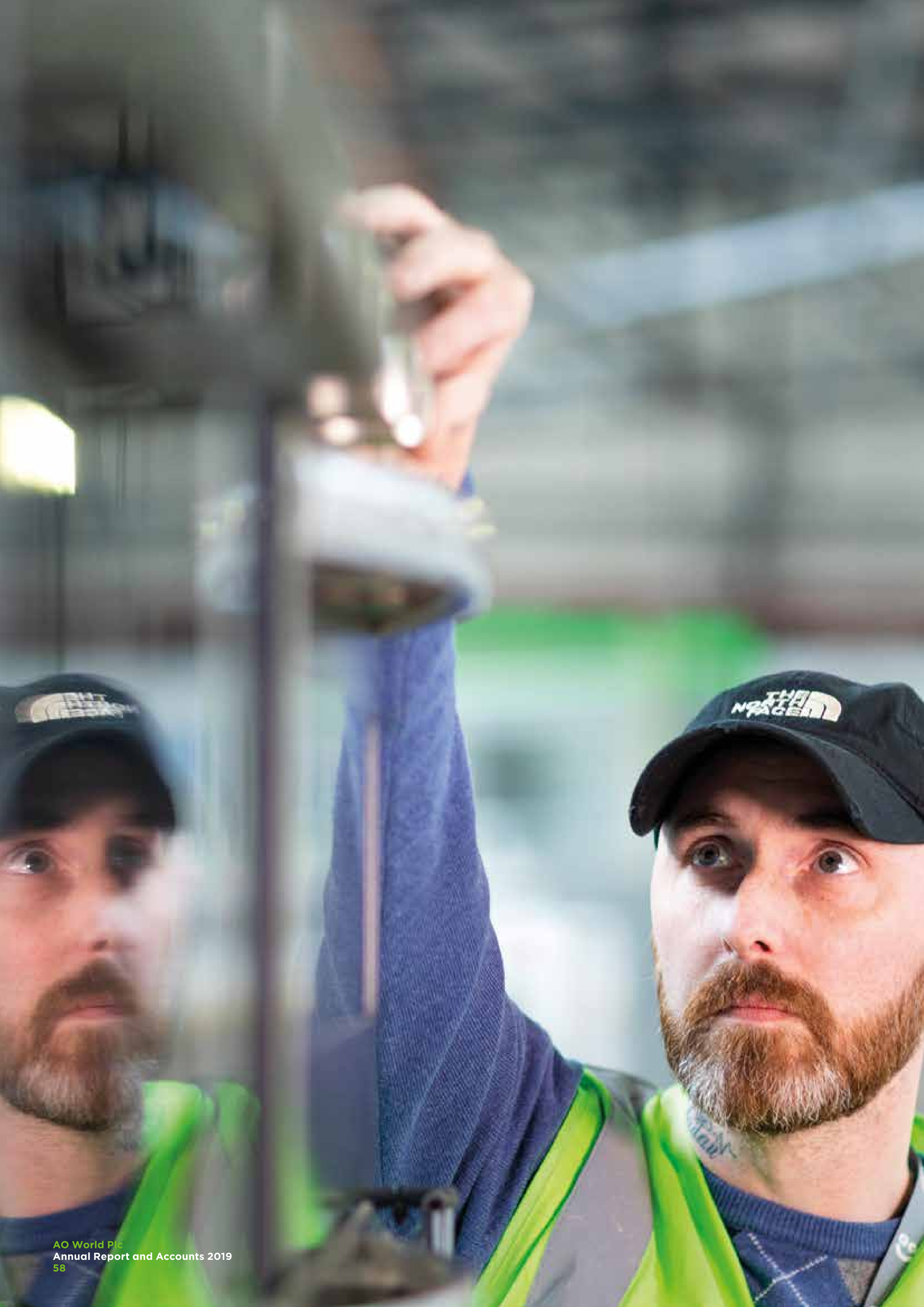
Trade and other payables decreased to £14.0m (2018: £15.1m), impacted by the timing of supplier payments around year end.

Capital expenditure

Total capital expenditure in the year was £5.2m (2018: £5.5m). The expenditure in 2019 principally comprised costs in relation to the commencement of construction of the new plastics plant in our Recycling business (together with continued investment in the current recycling site), fit-out costs in relation to additional corporate office space and the prior year included expenditure in relation to our new office in Manchester, continued investment in our recycling facility in Telford and the purchase of a number of delivery vehicles in Germany.

As announced the Group has commenced building a plastics refinement facility due to be operation in FY20 and is planning to open a second fridge recycling facility by the end of FY20. We therefore expect capital expenditure levels in the coming year to be higher than usual.

Mark Higgins
Group Chief Financial Officer
3 June 2019



A robust corporate governance framework is vital whilst at the same time having regard to our culture our values.

In this section

Chairman's letter to shareholders

We have everything in place to drive the business forward safely and securely.

Geoff Cooper
Chairman

Dear shareholder

On behalf of the Board I am pleased to present our corporate governance report for the financial year ended 31 March 2019. At AO we recognise that in order to deliver our strategic objectives and to support the long-term success of the Company a robust corporate governance framework is vital whilst at the same time having regard to our culture and our values.

We welcome the new Corporate Governance Code released in July 2018 ("2018 Code") and have already commenced work to transition to the new provisions having appointed Jacqueline de Rojas as AO's "People Champion" to drive engagement with the workforce. Furthermore, the Board recognises the importance of our wider stakeholders and its responsibility to them under section 172 of the Companies Act 2016. Please refer to our Strategy and Business Model on pages 20 to 30 of the Report which illustrates how we create value for our stakeholders. We will report further on any required changes to apply the new Code provisions in next year's Annual Report.

A key part of my role is to ensure that the Board works collaboratively with the executive team, to provide support and guidance and to challenge management constructively when necessary. This involves having Directors with the right balance of skills and diversity of experience and perspective. Several changes have been made to the composition of our Board and its Committees over the last 12 months including the appointments of Shaun McCabe and Luisa Delgado as independent Non-Executive Directors (in July 2018 and January 2019 respectively). Both Shaun and Luisa have significant international and consumer-focused experience which deepens the Board's existing skills and knowledge in this regard. They have already made a substantial impact to the work of the Board and its Committees. I am therefore pleased to be able to report that at our year-end we consider we were fully compliant with all applicable Code provisions and also that one-third of our Board is now female.

Having served as a Non-Executive Director for over five years Brian McBride has decided to retire and will not be standing for re-election at the Company's forthcoming Annual General Meeting. The Board wishes Brian well for the future and thanks him for his significant contribution during his time with the Company, particularly for his work to support the implementation of our Corporate Governance framework following the Group's IPO in 2014 and for his influence as Chairman of the Remuneration Committee and as a member of the Audit Committee.

Luisa was appointed as Chair of the Remuneration Committee at the end of January 2019 and working alongside Brian for the last five months has ensured a smooth transition in the operation and effectiveness of the Remuneration Committee. Luisa has considerable experience in the field of compensation and benefits, both as an HR professional and from serving on the remuneration committee of INGKA Holding B.V. (IKEA), and will ensure robust governance in this area.

At the end of January 2019, having been a member of the Group's management team for over 13 years and leading the Group through two years of intense activity, Steve Caunce resigned as Chief Executive Officer of AO in order to rebalance his lifestyle. The Board would like to thank Steve for his significant contribution to the development of AO, in particular for his recent work to ensure the successful acquisition of Mobile Phones Direct Limited December 2018. We wish him all the best for his future endeavours.

John Roberts was reappointed as Chief Executive Officer of the business in place of Steve. John has returned to this role with a renewed energy and passion, undertaking a comprehensive review of the business and implementing a number of changes to reset the approach in many respects, in particular to ensure our mindset is focused on high growth and innovation.

The last 12 months have been busy for our Board, and the Nomination and Remuneration Committees including the changes made to our Board, the implementation of a new Remuneration Policy approved at our 2018 AGM and the support given by the Non-Executive Directors to management during the acquisition of Mobile Phones Direct Ltd. We have also overseen the appointment of a new Chief People Officer, who will be part of the CEO's Executive Committee and will help further our work on succession planning and diversity – both key areas of focus for next year.

Finally, I look forward to meeting shareholders at our next Annual General Meeting which will be held on 17 July 2019 at AO Manchester, Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. As was the case last year, all Directors wishing to remain in office will seek election and re-election at the AGM.

Geoff Cooper
Chairman

Introduction

This Corporate Governance Statement explains key features of the Company's governance structure and how it complies with provisions set out in the 2016 UK Corporate Governance Code ("the Code") which is the version of the Code that applies to its 2018/19 financial year (the "Period"). The Board is mindful of the new Corporate Governance Code, which was published last year and has started to consider the implications of the new Code for the Company ("2018 Code"). This Statement also includes items required by the Listing Rules and the Disclosure Guidance and Transparency Rules. The Code is available on the Financial Reporting Council website at www.frc.org.uk.

Compliance with the Code

The Directors consider that the Company has, throughout the Period, complied with the provisions of the Code save as noted below:

Code Provision	Detail	Explanation of non-compliance
B.1.2	Less than half of the Board, excluding the Chairman, were independent Non-Executive Directors during the period. (More than half the Board is now).	For part of the Period, excluding the Chairman who was deemed independent on appointment, the Board had three independent Non-Executive Directors which represented less than half of the Board. However, during the Period Shaun McCabe and Luisa Delgado were appointed as independent Non-Executive Directors to the Board and the Company now complies with this Code provision.
C.3.1	The Audit Committee did not comprise three independent Non-Executive Directors (but does now).	For part of the Period Chris Hopkinson was a member of the Audit Committee. Chris is not considered to be independent for the purposes of the Code given his long-term involvement with the business. In July 2018 Shaun McCabe, an independent Non-Executive Director, replaced Chris Hopkinson as a member of the Audit Committee. The Audit Committee now comprises three independent Non-Executive Directors and the Company now complies with this Code provision.

More information on our approach to governance is included in the introduction, the report on Corporate Governance and the reports of the Committees set out on pages 62 to 93. These reports describe how we have applied the main principles of the Code. In addition, this information is set out in detail on our website at ao-world.com.

Leadership

Overview of Governance structure

AO World Plc Board

The Company is led and controlled by the Board. The structure and business of the Board is designed to ensure that the Directors focus on strategy, monitoring, governance and the performance of the Group. The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors who cascade this responsibility amongst the Executive Committee and through to the Group Management Team. The Reports of the Committees can be found on pages 68 to 93.

Executive Committee

Group Management Team

Board Committees

Audit
see page 71

Risk
see page 37

Remuneration
see page 76

Nomination
see page 68

The Board

Role of the Board

Our Board is collectively responsible for the Group's performance and meets as often as necessary to effectively conduct its business. The Board is responsible for supervising the management of the business and approving the strategic direction of the Company with three Committees to which it delegates key governance and compliance procedures.

The Board has an annual rolling plan of items for discussion which is reviewed and adapted regularly to ensure all matters reserved to the Board, with other items as appropriate, are discussed. At each meeting, the Chief Executive Officer updates the Board on key operational developments, provides an overview of the market, reports on Health and Safety and other key operational risks and highlights the important milestones reached in the delivery of the Group's strategic objectives. The Chief Financial Officer provides an update on the Group's financial performance, banking arrangements, AO's relationships with investors and potential investors and shareholder analysis. Meeting proceedings and any unresolved concerns expressed by any Director are minuted by the Company Secretary who, as Director of Group Legal, provides the Board with an update on any legal issues. Other members of management are also invited to attend Board meetings to present on specific business issues and proposals. This way the Board is given the opportunity to meet with the next layers of management and gain a more in-depth understanding of key areas of the business. External speakers are also invited to present to the Board on topical industry issues. All these topics lead to discussion, debate and challenge amongst the Directors.

The formal schedule of matters reserved to our Board for decision making includes:

— Setting and reviewing the Group's long-term objectives, commercial strategy, business plan and annual budget.
— Overseeing the Group's operations and management.
— Governance and risk control issues.
— Major capital projects.

A full list of those matters reserved for the Board is available on the Company's website at ao-world.com and from the Company Secretary upon request.

Current composition of our Board

As at the date of this Annual Report, the Board comprises nine members: The Chairman, two Executive Directors and six Non-Executive Directors, which includes the Senior Independent Director. Excluding the Chairman, five Board members are considered independent in line with the 2016 Code. All our Directors served throughout the year with the exception of Shaun McCabe who was appointed to the Board as an independent Non-Executive Director on 24 July 2018, Luisa Delgado who was appointed to the Board as an independent Non-Executive Director on 1 January 2019 and Steve Caunce who stepped down as Chief Executive Officer and resigned from the Board with effect from 31 January 2019. John Roberts, Founder Executive Director was reappointed as Chief Executive Officer with effect from 31 January 2019. The appointments of Shaun and Luisa have further broadened and strengthened the Board's existing composition and support the work of the Audit and Remuneration Committees, thus addressing our previous Code non-compliance issues and supporting our succession planning.

As part of the Board's work to apply the new provisions set out in the 2018 Code, to assess and monitor culture and to ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success, during the year Jacqueline de Rojas, was appointed as AO's "People Champion". The responsibilities of this role will include providing an appropriate avenue for AO'ers to raise any matters of concern and to drive engagement with the workforce generally reporting back to the Board to take corrective action as appropriate whilst also engaging on Executive Pay.

The Board regularly reviews its composition, experience and skills to ensure that the Board and its Committees continue to work effectively and that the Directors are demonstrating a commitment to their roles. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 64 and 65.

On 3 June 2019 the Board received notification from Brian McBride that he intended to retire as a Non-Executive Director and would therefore not seek re-election at the AGM on 17 July 2019.

Further details about the changes to the composition of the Board during the Period and the work of the Nomination Committee is disclosed on pages 68 to 69.

For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' Report on pages 93 to 96.

Board meetings and attendance

Ten Board meetings (eight scheduled in the ordinary course of business and two supplementary) were held during the year ended 31 March 2019 and there are currently eight meetings scheduled for the year ending 31 March 2020. The table below summarises the attendance of the Directors during the reporting period.

Director	Meetings eligible to attend	Meetings attended
Geoff Cooper	10	10
John Roberts	10	10
Mark Higgins	10	10
Brian McBride	10	9
Chris Hopkinson	10	10
Marisa Cassoni	10	10
Jacqueline de Rojas	10	10
Shaun McCabe[1]	7	7
Luisa Delgado[2]	4	4
Steve Caunce[3]	8	8

1 Shaun McCabe was appointed to the Board on 24 July 2019
2 Luisa Delgado was appointed to the Board on 1 January 2019
3 Steve Caunce resigned from the Board on 31 January 2019

Where Directors are unable to attend meetings, they receive the papers scheduled for discussion at the relevant meetings, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting.

Division of responsibilities

The positions of our Chairman and Chief Executive Officer are not exercised by the same person, ensuring a clear division of responsibility at the head of the Company. The division of roles and responsibilities between Geoff Cooper and John Roberts (and Steve Caunce until his resignation at Chief Executive Officer on 31 January 2019) is clearly established.

As Chairman of the Board, Geoff Cooper is responsible for its leadership, setting its agenda, monitoring its effectiveness and ensuring good governance. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors.

John Roberts and Mark Higgins are together responsible for the day-to-day running of the Group, carrying out our agreed strategy and implementing specific Board decisions.

The Senior Independent Director ("SID") is currently Brian McBride who will be replaced by Marisa Cassoni from conclusion of the AGM. The SID is available to shareholders if they have concerns that the normal channels of Chairman or Chief Executive Officer have failed to resolve, or for which such channels of communication are inappropriate. The SID also acts as an internal sounding board for the Chairman and serves as intermediary for the other Directors, with the Chairman, when necessary. The role of the SID is considered to be an important check and balance in the Group's governance structure. In accordance with the Code, neither the Chairman nor the SID are employed as executives of the Group.

Board Diversity

The Board recognises the importance of diversity in general across the business and at Board level. Diversity in Board composition is an important part of overall Board effectiveness. As a result, in looking for prospective Directors, regard is given to the skills and experience of the Board at that time, the need to address longer-term succession and business priorities and inherent qualities, as well as cultural background.

Our Board currently includes three women out of a Board of nine members, representing 33% of its membership (2018: 25%). We are very pleased with the progress made, having regard to the voluntary target set out in the Hampton-Alexander 2016 and 2017 reviews for FTSE350 companies to aim for a minimum of 33% women's representation on their Boards by 2020. While we are supportive of the aims, objectives and recommendations outlined in this review and in Lord Davies' original report "Women on Boards", we do not consider that it is in the best interests of the Company and its shareholders to set prescriptive targets for gender on the Board and we will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role whilst maintaining an overall objective to have a Board of mixed gender and background that has an instinctive feel for our customers and people.

Further information on the work being undertaken across the Group to further diversify our workforce and the total female representation on our workforce is set out in the section on Culture on pages 24 and 25.

Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association, which are in line with the Companies Act 2006, allow the Board to authorise potential conflicts of interest that may arise and to impose limits or conditions, as appropriate, when giving any authorisation. Any decision of the Board to authorise a conflict of interest is only effective if it is agreed without the conflicted Directors voting or without their votes being counted. In making such a decision, the Directors must act in a way they consider in good faith will be most likely to promote the success of the Company.

The Company has established a procedure for the appropriate authorisation to be sought prior to the appointment of any new Director, or prior to a new conflict arising and for the regular review of actual or potential conflicts of interest. An Interests Register records any authorised potential conflicts and will be reviewed by the Board on a regular basis to ensure that the procedure is working effectively.

Board of Directors

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1. Geoff Cooper
Non-Executive Chairman

Appointment to the Board
1 July 2016

Relevant skills & experience
- Over 20 years' UK public company Board experience, including Chair and Chief Executive Officer roles
- Significant retail and customer-facing industry experience across the UK
- Ability to steer Boards through high-growth strategies and overseas expansion
- Currently Non-Executive Chairman Bourne Leisure Holdings, former Non-Executive Chairman of Dunelm Group plc and Card Factory plc and former Chief Executive Officer of Travis Perkins Plc
- Member of the Chartered Institute of Management Accountants

Significant current external appointments
Non-Executive Chairman at Bourne Leisure Holdings Limited.

Committee membership
Geoff chairs the Nomination Committee.

Independent
Yes.

2. John Roberts
Founder and Chief Executive Officer

Appointment to the Board
2 August 2005 (AO Retail Limited 19 April 2000)

Relevant skills & experience
- Co-founded the business over 18 years ago, giving him thorough knowledge and understanding of the Group's business
- Extensive CEO experience; led the management team to successfully develop and expand the business during periods of challenging market conditions
- Innovator and visionary lead
- Significant market knowledge and understanding

Committee membership
John attends the Remuneration, Audit and Nomination Committees by invitation.

3. Mark Higgins
Chief Financial Officer

Appointment to the Board
1 August 2015

Relevant skills & experience
- Group Finance Director for four years prior to appointment as AO's Chief Financial Officer
- Senior finance roles held at Enterprise Managed Services Ltd and the Caudwell Group
- Member of the Chartered Institute of Management Accountants

Committee membership
Mark attends the Remuneration, Audit and Nomination Committees by invitation.

4. Brian McBride
Senior Independent Director

Appointment to the Board
6 February 2014

Relevant skills & experience
- Extensive online retail experience – former Managing Director of: Amazon.co.uk; Chair of ASOS Plc and Wiggle Ltd
- Significant non-executive and governance experience
- Master's degree in Economics, History and Politics

Significant current external appointments
–

Committee membership
Brian is a member of the Nomination and Remuneration Committees.

Independent
Yes.

5. Chris Hopkinson
Non-Executive Director

Appointment to the Board
12 December 2005

Relevant skills & experience
- Former City Financial Analyst
- Significant industry experience
- Holds a Master's degree in Logistics

Significant current external appointments
Executive Director of Better Business Support Ltd and Clifton Trade Bathrooms Ltd.

Committee membership
–

Independent
No.

6. Marisa Cassoni
Non-Executive Director

Appointment to the Board
5 February 2014

Relevant skills & experience
- ICAEW chartered accountant with extensive financial and governance experience in both private and public companies
- Previously finance director of John Lewis Partnership Ltd, Royal Mail Group and the UK division of Prudential Group
- Panel member of the Competition and Markets Authority
- Wealth of Board experience

Significant current external appointments
Non-Executive Director at Ei Group Plc and Galliford Try plc

Committee membership
Marisa is the Chair of the Audit Committee and is a member of the Remuneration Committee.

Independent
Yes.

7. Jacqueline de Rojas CBE
Non-Executive Director

Appointment to the Board
23 November 2017

Relevant skills & experience
- Significant experience in fast-moving technology businesses
- Previous senior roles held at major global technology companies, including Sage Group plc, Citrix Systems Inc, CA Technologies, Novell and McAfee International and Non-Executive Director at Home Retail Group plc
- President of techUK, Chair of the Digital Leaders Technology Group
- A passionate advocate for diversity and inclusion in the workplace
- Awarded a CBE for services to international trade in the technology industry in the 2018 New Year's Honours List

Significant current external appointments
Non-Executive Director at Costain Group plc and Rightmove plc.

Committee membership
Jacqueline is a member of the Nomination and Remuneration Committees.

Independent
Yes.

8. Shaun McCabe
Non-Executive Director

Appointment to the Board
24 July 2018

Relevant skills & experience
- Strong mix of knowledge of consumer-focused businesses and digital expertise
- Significant International, finance and general management experience
- Previous senior positions held at a number of online market leaders including International Director at ASOS plc and Vice President, Chief Financial Officer for Amazon Europe

Significant current external appointments
Chief Financial Officer for Trainline

Committee membership
Shaun is a member of the Audit Committee

Independent
Yes.

9. Luisa Delgado
Non-Executive Director

Appointment to the Board
1 January 2019

Relevant skills & experience
- Extensive experience in consumer goods, retail, international markets, and Public Company governance. Functional expertise in general management and operations, human resources, branding and selling.
- Previously held roles include:
  - Chief Executive Officer of Safilo Group, Milan listed worldwide eyewear company and member of its Board of Directors;
  - Vice President at Procter & Gamble as local CEO Nordic, WE Human Resources VP, with roles in UK, Portugal and Belgium; and
  - Executive Board member and CHRO at SAP SE.
- Holds a LL.M of King's College – University of London, and the FT Non-Exec Director Diploma.
- Luisa is an Investor and Entrepreneur. She is also a member of the Supervisory Board of INGKA Holding BV (IKEA).

Significant current external appointments
Non-Executive Director at INGKA Holding B.V. (IKEA).

Committee membership
Luisa is the Chair of the Remuneration Committee and is a member of the Audit Committee.

Independent
Yes.

Committees of the Board

The Board has delegated authority to its Committees to carry out certain tasks on its behalf and to ensure compliance with regulatory requirements, including the Companies Act 2006, the Listing Rules, the Disclosure Guidance and Transparency Rules and the Code. This also allows the Board to operate efficiently and to give the right level of attention and consideration to relevant matters. A summary of the terms of reference of each Committee is set out below.

Committee	Role and terms of reference	Membership required under terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the external auditors.	At least three Independent Non-Executive Directors members	Three	71 to 74
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and the Executive Committee.	At least three Independent Non-Executive Directors members	Three	76 to 92
Nomination	Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board.	At least three members At least one should be an independent Non-Executive Director	Two	68 and 69

The full terms of reference for each Committee are available on the Company's website at www.ao-world.com and from the Company Secretary upon request.

Effectiveness

Board evaluation and effectiveness

The effectiveness and performance of the Board is vital to our success. In compliance with the Code, as an external evaluation was conducted by Equity Communications Ltd in the previous reporting period and, towards the end of the Period, an internal evaluation process was undertaken. Having regard to the changes made to the composition of the Board, namely the addition of two new Non-Executive Directors to the Board and the reappointment of John Roberts during the year, the usual full internal evaluation questionnaire process was not considered appropriate and the evaluation process was adapted to comprise a review of the progress made against the themes arising from the previous year's external evaluation.

The results of this evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed and will be progressed over the coming year; for example, increasing the duration of Board meetings to allow the Non-Executive Directors to add more value and to engage in more qualitative debate and encouraging our Non-Executives to spend more time in the business with our people. Further details of this process and the key action areas are set out in the Report of the Nomination Committee on pages 68 and 69.

During the year, the Chairman met with the Non-Executive Directors without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. Led by the Senior Independent Director an appraisal of the performance of the Chairman was conducted by the Non-Executive Directors.

Following evaluation, it was agreed that all Directors contribute effectively, demonstrate a high level of commitment to their role and together provide the skills and experience that are relevant and necessary for the leadership and direction of the Company.

Independence

For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni, Brian McBride, Jacqueline de Rojas, Shaun McCabe and Luisa Delgado are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Geoff Cooper, Chairman of the Company, was independent at the time of his appointment in July 2016 and remains so.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the internal Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision taking and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can been seen from the biographies on pages 64 and 65, the Chairman and the Non-Executive Directors collectively have significant industry, public company and international experience which will support the Company in executing its strategy.

Director election

Following the Board evaluation process and the subsequent recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and are able to devote sufficient time to their duties. Accordingly, all Directors will seek election and re-election at the Company's AGM with the exception of Brian McBride who will not seek re-election and will resign from the Board at the conclusion of that meeting.

Annual General Meeting

The AGM of the Company will take place at 8.00 am on Wednesday 17 July 2019 at the Company's Manchester office at Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet which is being mailed out at the same time as this Report and can also be found on our website www.ao-world.com. The notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

Geoff Cooper, the Chair of each of the Committees and the Executive Directors, will be present at the AGM and will be available to answer shareholders' questions.

Information, support and development opportunities available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by members of the Group management team when appropriate and external speakers also attend Board meetings to present on relevant topics. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary; for example, Deloitte advise on remuneration matters and Audit Committee members have received guidance from the external auditors on new developments in reporting standards. As part of the Board Evaluation process, training and development needs are considered and training courses are arranged, where appropriate.

In line with the Code, we ensure that any new Directors joining the Board receive appropriate support and are given a comprehensive and tailored induction programme organised through the Company Secretary, including the provision of background material on the Company and briefings with management as appropriate. Each Director's individual experience and background are taken into account in developing a programme tailored to his or her own requirements. Any new Director will also be expected to meet with major shareholders if required. During the year, the Board attended the National Cyber Security Centre to develop their understanding of cybercrime and the risks it poses to the Group.

External directorships

Any external appointments or other significant commitments of the Directors require the prior approval of the Board. Details of the Directors' significant external directorships can be found on pages 64 and 65. During the year Marisa Cassoni sought and was given approval to become a non-executive Director of Galliford Try plc.

While all Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board. Save for Crystalcraft Limited, a dormant company, and the charities Onside Youth Zones Limited and AO Smile Foundation, for which he receives no fees, John Roberts does not hold any external directorships. Up to his resignation from the Board, save for Crystalcraft Limited and Aghoco 1283 Limited, dormant companies, and the AO Smile Charitable Foundation, for which he received no fees, Steve Caunce did not hold any external directorships. Mark Higgins holds no external directorships.

Report of the Nomination Committee

Delivering a balanced Board with the right skills mix.

Geoff Cooper
Chairman

I am pleased to introduce the report of the Nomination Committee for the year. Full details of the Committee and its activities during the year are given below.

Composition and attendance of the Committee

The members of the Nomination Committee who served during the year ended 31 March 2019 and their attendance at Committee meetings is as follows:

Director		Meetings eligible to attend	Meetings attended
Geoff Cooper	Chairman and Chairman of the Board	3	3
Brian McBride	Senior Independent Non-Executive Director	3	3
Jacqueline de Rojas	Non-Executive Director	3	3

The Code recommends that the Nomination Committee is comprised of a majority of independent Non-Executive Directors and therefore the Company has complied with this Code provision during the Period.

Following Brian McBride's intention to retire from the Board, he will step down as a member of the Nomination Committee at the conclusion of the Company's AGM in July 2019. It is proposed that Chris Hopkinson will be reappointed to this Committee as his experience and knowledge will allow him to make a significant contribution to its work, ensuring it is run effectively. Although Chris is not deemed an independent Non-Executive Director due to his historic involvement with the Company, the composition of the Nomination Committee will comply with the provisions of the 2018 Code as including the Chairman, the Committee will comprise a majority of independent Non-Executive Directors.

Julie Finnemore (Director of Group Legal and Company Secretary) serves as Secretary to the Committee. By invitation, the meetings of the Nomination Committee may be attended by the Chief Executive Officer, Chief Financial Officer and the other Non-Executive Directors.

Role of the Nomination Committee

The Committee is responsible for regularly reviewing the structure, size and composition of the Board, and has responsibility for nominating candidates for appointment as Directors to the Board, having regard to its composition in terms of diversity (including gender) and ensuring it reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Director as he or she reaches the end of the period of their initial appointment (three years) and at appropriate intervals during their tenure. The Committee also considers and makes recommendations to the Board on the annual election and re-election of any Director by shareholders, including Executive Directors, after evaluating the balance of skills, knowledge and experience of each Director. Such appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. The Company uses a combination of external recruitment consultants and personal referrals in making any required appointments to the Board.

The Nomination Committee takes into account the provisions of the Code and any regulatory requirements that are applicable to the Company.

The Chairman does not chair the Nomination Committee when it is dealing with the appointment of a successor Chair. In these circumstances the Committee is chaired by an independent member of the Nomination Committee elected by the remaining members.

Main activities of the Committee during the year

Under its terms of reference the Nomination Committee is required to regularly review the structure, size and composition of the Board (including the balance of skills, experience, independence and knowledge on the Board) taking into account the Company's current requirements, the results of the Board performance evaluation process that relate to the composition of the Board and the future development of the Company, and make recommendations to the Board with regard to any adjustments that are deemed necessary. As I reported last year, based on the recommendation of the Nomination Committee, during the period under review we undertook a process to appoint two new independent Non-Executive Directors to help expand the Board's skill set, seeking to provide a new avenue of thought to drive growth and increase Board diversity whilst also addressing our existing Code non-compliance issues with respect to independence.

Led by myself as Chairman and in consultation with an external independent non-executive search consultancy (Russell Reynolds Associates) and having met with a number of high-calibre candidates, during the year the Nomination Committee recommended the appointments of Shaun McCabe (appointed in July 2018) and Luisa Delgado (appointed in January 2019) as Non-Executive Directors to the Board. We set out to appoint individuals with suitable experience to continue to develop the Board's skill set. Shaun brings with him a strong mix of knowledge of consumer-focused businesses, as well as digital expertise gained from his time in finance, general management and international roles at Amazon and ASOS. Shaun is a member of the Audit Committee and his experience in senior finance roles will be valuable in supporting its work. Luisa has both significant international, consumer-focused and HR experience which will provide valuable insight to the Company. Luisa has been appointed as Chair of the Remuneration Committee and a member of the Audit Committee. Her experience on IKEA's remuneration committee and HR, compensation and benefits experience will be a great contribution to the work of the Remuneration Committee.

At the end of January 2019, having been a member of the Group's management team for over 13 years and leading the Group through two years of intense activity, Steve Caunce resigned as Chief Executive Officer in order to rebalance his lifestyle. The Nomination Committee met to consider all practical options for appointing a successor, including internal promotion, interim appointees and external search. Having taken a break from day-to-day leadership over the last two years, John Roberts expressed his desire to be reappointed as Chief Executive Officer. The Nomination Committee debated the proposal and determined that John was well placed to continue to drive the Group's strategy forward, help ensure its culture flourish and to continue to foster the Company's business relationships with suppliers and customers, given his previous experience with the business. The Committee therefore recommended the reappointment of John Roberts as Chief Executive Officer.

The effectiveness and performance of the Board is vital to our success. An internal evaluation of the performance of the Board, its Committees and the Chairman was carried out towards the end of the Period. The process of evaluating the performance was undertaken by myself as Chairman. Having regard to the changes made to the composition of the Board, namely the addition of two new Non-Executive Directors to the Board and the reappointment of John Roberts during the year, the Board's usual full internal evaluation questionnaire process was not considered appropriate and instead the evaluation process was adapted to comprise a review of the progress made against the themes arising from the previous year's external evaluation. Specific areas of focus included:

- extending the time allocated to strategic discussions at Board meetings providing more opportunity for the Non-Executive Directors to add more value;
- encouraging our Non-Executive Directors to spend more time in the business with our people;
- an increased level of informal communication between the Board and management; and
- improved management information.

The Committee concluded that good progress had been made against these themes. A number of highly productive and effective strategy days have been held during the period which have also helped to foster relationships and encourage a more open culture of debate and challenge between Board members and the duration of Board meetings will be extended to ensure that there is adequate time for Non-Executive Directors to add more value and to engage in more qualitative debate. The interaction between Non-Executives and senior management has also increased during the Period, for example, Jacqueline de Rojas gave an AOInspire talk to the business and engaged with staff at many levels. Overall, the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness.

The Committee will continue to review the succession planning of senior management; it recognises that effective succession planning is fundamental to the success of the Company and that ensuring the continued development of talented employees and appropriately rewarding them helps to mitigate the risks associated with unforeseen events, such as key individuals leaving the business. During the year the Nomination Committee supported the work of Executive Management to identify a new Chief People Officer (CPO). The calibre of individuals we met during the recruitment process was exceptional and we are delighted that our new CPO will join the business over the coming months with responsibility for ensuring our culture remains true to AO across our entire Group. Due to the growth and agility of the business, our people and culture (including succession planning) will continue to be a key area of consideration in the year ahead.

Diversity

Diversity in Board composition is an important part over overall Board effectiveness. As a result, in looking for prospective Directors, the Committee considers a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender, and supports the recommendations of Lord Davies', and other subsequent, reviews.

Our Board currently includes three women, representing 33% of its membership (2018: 25%). We are very pleased with the progress made, having regard to the voluntary target set out in the Hampton-Alexander 2016 and 2017 reviews for FTSE350 companies to aim for a minimum of 33% women's representation on their Boards by 2020.

AO endeavours to achieve appropriate diversity, including gender diversity, and notably, Russell Reynolds Associates (who we worked with in seeking the appointment of Jacqueline de Rojas and Luisa Delgado) are well known for their work in the appointment of women. Understanding how we can further diversify our workforce has and will continue to form a key part of the Group's people agenda. During the year, Jacqueline de Rojas a member of the Nomination Committee and advocate for diversity and inclusion in the workplace became a member of an internal steering group which has been tasked with improving diversity across the business in particular with regard to gender and ethnicity. Further information on the work being undertaken across the Group to further diversify our workforce is set out in the section on Culture on pages 24 and 25.

However, the most important priority of the Committee has been and will continue to be ensuring that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group. Our policy is, therefore, to ensure that the best candidate is selected to join the Board and this approach will remain in place going forward, without prescriptive or quantitative targets.

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2019 AGM and offer themselves for reappointment with the exception of Brian McBride who will not seek re-election and will resign from the Board at the conclusion of the AGM. The biographical details of the current Directors can be found on pages 64 and 65. The Committee considers that the performance of the Directors standing for election and re-election continues to be effective and that they each demonstrate commitment to their role and devote sufficient time to attend Board and Committee meetings and any other duties.

The terms and conditions of appointment of Non-Executive Directors, including the expected time commitment, are available for inspection at the Company's registered office.

I will be available at the AGM to answer any questions on the work of the Nomination Committee.

Geoff Cooper
Chairman, Nomination Committee
AO World Plc
3 June 2019

Accountability

Internal controls

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls and it receives regular reports from management identifying, evaluating and managing the risks within the business. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. This system of internal controls complies with the Financial Reporting Council's Internal Control: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Audit Committee reviews the system of internal controls through reports received from management, along with those from both internal and external auditors. Management continues to focus on how internal control and risk management can be further embedded into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board.

The Board and the Audit Committee review on an ongoing basis the effectiveness of the system of internal controls and did so during the year ended 31 March 2019 and for the period up to the date of approval of the consolidated financial statements contained in the Annual Report. The review covered all material controls, including financial, operational and compliance controls and risk management systems; this has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. During the year the Board's focus has particularly been on the European operations and ensuring that as they increase in scale appropriate governance and operational controls are in place. The Board have noted that the appointment of a European Finance Director has resulted in improvements in this area. The acquisition of Mobile Phones Direct Ltd ("MPD") has also been an area of particular review and the Board have been regularly updated on the integration plan, to ensure Company best practice is established as quickly as possible in this area. The Board (particularly through the Audit Committee) have also continued to review the appropriateness of financial controls and note the work undertaken by the Company on development of its systems, particularly Microsoft Dynamics, as the business matures and increases in complexity.

The key elements of the Group's system of internal controls, which have been in place throughout the year under review and up to the date of this report, include:

- **Risk management:** Our Risk Management Committee has a clear framework for identifying, evaluating and managing risk faced by the Group on an ongoing basis, both at an operational and strategic level. This internal control process starts with the identification of risks through regular routine reviews with our AO team representatives facilitated by our internal audit team with appropriate action taken to manage and mitigate the risks identified. These risks are recorded Business Unit Risk Registers and the most significant ones (after assessing likelihood and impact) are then included in the Group's Corporate Risk Register. This register is reviewed and discussed quarterly by the Risk Management Committee and follow-up actions are assigned as appropriate. The Risk Management Committee issues a report to the Audit Committee and the key risks are included within the Group's Corporate Risk Register which is then reviewed and scrutinised by the Board and from which the Group's principal risks are determined. For further details of our risk management and risk appetite, and the developments made during the year, please see pages 37 to 44.
- **Management structure:** There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, Group management team meetings occur regularly to allow prompt discussion of relevant business issues and to ensure alignment on strategy. Please see page 62 for further details on our management structure.
- **Financial reporting:** Monthly management accounts provide relevant, reliable and up-to-date financial and non-financial information to management and the Board. Analysis is undertaken of the differences between actual results and budgeted results on a monthly basis. Annual plans, forecasts, performance targets and long-range financial plans allow management to monitor the key business and financial activities, and the progress towards achieving the financial objectives. The annual budget is approved by the Board. The Group reports half-yearly based on a standardised reporting process.
- **Information systems:** Information systems are developed to support the Group's long-term objectives and are managed by professionally staffed teams. Our financial reporting system, Microsoft Dynamics, is continually adapted to ensure that the requirements of the business are met. Appropriate policies and procedures are in place covering all significant areas of the business.
- **Contractual commitments:** There are clearly defined policies and procedures for entering into contractual commitments. These include detailed requirements that must be completed prior to submitting proposals and/or tenders for work, both in respect of the commercial, control and risk management aspects of the obligations being entered into. Significant contractual commitments, capital projects and acquisitions and disposals require Board approval.
- **Monitoring of controls:** The Audit Committee receives regular reports from the internal and external auditors and assures itself that the internal control environment of the Group is operating effectively. There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records and to safeguard the Group's assets. There are formal "whistleblowing" procedures in place, through which staff can, in confidence, raise concerns about possible improprieties in financial and pensions administration and other matters.

Report of the Audit Committee

Ensuring effective internal control and risk management together with fair, balanced and understandable reporting.

Marisa Cassoni
Chair, Audit Committee

I am pleased to report on the role and activities of the Audit Committee for the year.

Composition and attendance of the Committee

The members of the Audit Committee who served during the year ended 31 March 2019 and their attendance at Committee meetings is as follows:

		Meetings eligible to attend	Meetings attended
Marisa Cassoni	Chair	6	6
Chris Hopkinson*	Non-Executive Director	2	2
Brian McBride†	Senior Independent Non-Executive Director	5	5
Shaun McCabe**	Independent Non-Executive Director	4	4
Luisa Delgado††	Independent Non-Executive Director	1	1

* Chris Hopkinson served on the Committee from 21 July 2015 until the appointment of Shaun McCabe on 24 July 2018

** Shaun McCabe was appointed to the Board and the Audit Committee with effect from 24 July 2018

† Brian McBride served on the Committee from 16 February 2017 until the appointment of Luisa Delgado on 1 January 2019

†† Luisa Delgado was appointed to the Board and the Audit Committee with effect from 1 January 2019

Two meetings are scheduled per year to review each of the Annual Report and Accounts and the half-yearly report. Other meetings are scheduled as required.

The Code recommends that the Audit Committee should comprise at least three members, all of whom should be independent Non-Executive Directors with at least one member having recent and relevant financial experience.

Chris Hopkinson is not regarded as an independent Non-Executive Director for the purposes of the Code and therefore the Committee was not fully compliant in this respect. However as set out elsewhere in this report on 24 July 2018 Shaun McCabe was appointed to the Board as a Non-Executive Director and having the suitable skills and experience, he was appointed to the Audit Committee in place of Chris Hopkinson, thus addressing its Code compliance issue. In addition, Luisa Delgado was appointed to the Board as a Non-executive Director and a member of the Audit Committee, replacing Brian McBride with effect from 1 January 2019.

I am the independent Non-Executive Director considered to have recent and relevant financial experience, and am pleased to confirm that all members have recent and extensive and relevant experience (Directors' biographies appear on pages 64 and 65) and at the end of the Period, the Committee was fully compliant with the Code independence requirements.

Julie Finnemore (Director of Group Legal and Company Secretary) serves as Secretary to the Committee. By invitation, the meetings of the Audit Committee may be attended by any Non-Executive Director, the Chief Executive Officer, the Chief Financial Officer, the UK Finance the Director, Director of Financial Control and the Head of Internal Audit. The external audit engagement partner and team are also invited to attend Audit Committee meetings to ensure full communication of matters relating to the audit. As Chair of the Audit Committee, I meet regularly with both the internal and external Auditors during the year.

Role of Audit Committee

The Audit Committee has particular responsibility for monitoring the Group's financial reporting process, the adequacy and effectiveness of the operation of internal controls and the integrity of the financial statements. This includes a review of significant issues and judgements, policies and disclosures. The Committee reviews the Company's risk management and viability disclosure for recommendation to the Board for approval. Our duties also include keeping under review the scope and results of the audit and its cost effectiveness, consideration of management's response to any major external or internal audit recommendations and the independence and objectivity of the internal and external Auditors.

Additionally, the Board requests that the Audit Committee advises whether we believe the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

A forward agenda will be used for the coming year's activities focused around the review of the annual financial statements, the results of the external annual audit and interim reviews and internal audit quarterly updates, relevant interim financial reporting and the external audit plan, review of risk management reports, review of internal audit plans and findings and recommendations.

A key responsibility of the Audit Committee is to ensure that the external audit process and audit quality are effective. We do this by relying on:

(i) the engagement with the Audit Committee Chair and the lead audit engagement partner which will generally be through face-to-face meetings;
(ii) the reports which are brought to the Committee by the lead audit engagement partner and other senior members of the audit team;
(iii) the quality of the management responses to audit queries; meetings are held by the lead audit engagement partner with the Chief Financial Officer and Director of Financial Control which are then reported on to me as Audit Chair and the Committee; and
(iv) a review of the independence and objectivity of the audit firm and also the quality of the formal audit report given by the Auditor to shareholders. Feedback is also sought from members of the finance team, the Company Secretary and the Head of Internal Audit.

Audit Committee meetings are generally scheduled to take place in advance of a Company Board meeting. As the Committee's Chair, I report to the Board as part of a separate agenda item on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work. All members of the Board have access to Audit Committee papers and minutes of meetings and are invited to attend the meetings.

Significant work undertaken by the Committee during the year

Review of the 2019 Financial Statements

During the year to 31 March 2019, the Audit Committee reviewed and endorsed, prior to submission to the Board, full-year financial statements and the preliminary, interim results and trading update announcements. We considered internal audit reports and risk management updates, agreed external and internal audit plans, approved accounting policies and ensured appropriate whistleblowing arrangements and associated policies were in place.

The internal audit annual plan was reviewed and approved by the Committee, and all reports arising therefrom were reviewed and assessed, along with management's actions to findings and recommendations.

As part of the Class 1 requirements relating to the acquisition of Mobile Phones Direct Ltd ("MPD"), the Group was required to assess the Financial Processes and Procedures of both MPD and the wider Group. The Audit Committee have reviewed the output from this exercise together with the ongoing plan of financial integration of MPD into the AO Group.

In reviewing the financial statements with management and the Auditors, the Committee has discussed and debated the critical accounting judgements and key sources of estimation uncertainty set out in Note 4 to the financial statements. As a result of our review, the Committee has identified the following issues that require a high level of judgement or have significant impact on interpretation of this Annual Report.

Significant financial accounting matters	
Revenue recognition, debtor recoverability and legal risk in respect of product protection plans	The Company sells product protection plans to customers purchasing electrical appliances, as agent for Domestic & General, who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. Commission receivable for sales of product protection plans for which the Group acts as an agent are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised up front on the basis that the Group has fulfilled its obligations to the customer in line with accounting standards relating to revenue recognition. The fair value calculation takes into consideration the anticipated length of the plan and the historical rate of customer attrition and is discounted to reflect the time value of money but also risks around the recoverability of the receivable balance attributable to the product protection plans. The Company accounts for this income on the basis that it is agent. The basis upon which the Company offers and sells product protection plans could change due to (i) a change in law or regulation or the interpretation of existing law or regulation, or (ii) a change in how the plans are managed or controlled or the level of risk that the Company assumes in relation thereto. Any such change could affect the Company's accounting of such income and/or could subject the Company to claims or proceedings in relation to such product protection plans. Whilst this is an area of estimate and judgement, the management team has prepared detailed policies setting out the key assumptions in the model. The Committee has reviewed the judgements made in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.
Commercial income arrangements	The Group has a number of contracts with its suppliers where additional discounts can be applied based on purchase levels. The Group accrues the additional discounts by reference to the expected level of purchases. The percentage discount accrued may differ to the current run rate of purchases as the calculation takes seasonality into account. There is a risk therefore that the level of discounts provided for at the year end could materially differ from the actual number of purchases when compared to assumptions made by management. The management team has prepared detailed policies setting out the key assumptions and judgements in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.
Mobile Phones Direct Acquisition Accounting	On 17 December 2018 the Group acquired the entire issued share capital of Mobile Phones Direct Ltd ("MPD"). The acquisition was for a value of £39.5m. In relation to the accounting for the acquisition, a detailed Purchase Price Allocation exercise has been undertaken to assess the fair value of all assets and liabilities acquired with the business. This includes valuing any intangible fixed assets not previously recognised in the accounts of MPD. The valuation of the intangible fixed assets in particular inherently involves significant judgements over certain assumptions. Management engaged with a third party to assist with the valuation of the intangible fixed assets as part of the purchase price allocation exercise. The Committee has reviewed the work undertaken by the third party and management and, following appropriate challenge, we consider the policies adopted and subsequent accounting to be appropriate.
Network Commission Receivable	The Group's subsidiary Mobile Phones Direct Ltd receives commission from the Mobile Network Operators. The network commissions receivable are based on the fair value of commissions due over the expected life of the network contract. As this requires subjective estimates the future outcomes of these estimates could be different which would affect the amount of revenue recognised. Whilst this is an area of estimate and judgement, the management team has prepared detailed policies setting out the key assumptions in the model. The Committee has reviewed the judgements made in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.

Training
During the year, the Audit Committee members have received advice on new developments in reporting standards from the Company's Auditors and I have received appropriate training.

Going Concern Assumption and Viability Statement
The Committee reviewed the Going Concern Assumption and Viability Statement reported by the Group, as required by the UK Corporate Governance Code 2016 including the risks that could arise from a partial or full withdrawal of suppliers' credit insurance and the refinancing required during the viability period (see page 45). Further information on the Going Concern Assumption can be found on page 45. The Committee was satisfied that the Viability Statement, noted on page 45 of the Strategic Report, presented a reasonable outlook for the Group to March 2022.

Fair, balanced and understandable assessment
The Committee has reviewed the financial statements together with the narrative contained within the Strategic Report set out on pages 14 to 58 and believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. In arriving at this conclusion the Committee undertook the following:

- review of early drafts of the Annual Report and Accounts, providing relevant feedback;
- regular review and discussion of the financial results during the year; and
- receipt and review of reports from the external and internal Auditors.

The Committee advised that the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable at a meeting of the Directors on 3 June 2019.

Internal Audit
The Committee receives reports from the Internal Audit department and reviews the internal audit process and effectiveness as part of the Group's risk assessment programme and as part of its sign-off on internal controls. An annual programme of internal audit assignments is reviewed by the Committee. The Committee met with the Head of Internal Audit without the presence of the Executive Directors on two occasions during the year.

External Auditor
The Audit Committee has primary responsibility for leading the process for selecting the external Auditor. It is required to make appropriate recommendations on the external Auditor through the Board to the shareholders to consider at the Company's AGM.

Following approval by shareholders at the AGM held on 19 July 2018, KPMG LLP was reappointed as AO's external Auditor for the financial year ending 31 March 2019. The Committee has been satisfied with the quality of the audit provided, as well as with the independence of KPMG as Auditor. During the year, KPMG charged the Group £0.4m (2018: £0.3m) for audit-related services.

Internal controls
During the year, the Committee continued to oversee and review AO's internal financial controls and risk management processes, risk appetite statement and principal risks, details of which are set out in the Risk section of the Strategic Report on pages 37 to 44.

Non-audit services
The Company's external Auditor may also be used to provide specialist advice where, as a result of their position as Auditor, they either must, or are best placed to, perform the work in question, subject always to EU audit rules surrounding prohibited non-audit services. The Company's general policy is not to use the appointed external Auditor for any non-audit services; however a formal policy is in place in relation to ad hoc occurrences to ensure that there is adequate protection of their independence and objectivity and any such use requires approval of the Audit Committee. Further, any fees for non-audit services must fall within the limits specified by EU legislation, and various services are wholly prohibited; including tax, legal, valuation and payroll services.

Fees charged by KPMG in respect of non-audit services generally require the prior approval of the Audit Committee. A breakdown of the fees paid to KPMG during the year is set out in Note 9 to the consolidated financial statements.

During the year under review, KPMG charged the Group £40,000 plus VAT for non-audit related services relating to the half-year review and £30,000 relating to the work undertaken for the acquisition of MPD.

The Audit Committee considered the level of these fees against a) the total fees incurred for the transaction and b) the fees paid to KPMG for audit services. The Audit Committee were satisfied that the work performed and fees received did not conflict with KPMG's independence.

It is the Company's practice that it will seek quotes from several firms, which may include the incumbent Auditor, before work on non-audit projects is awarded. Contracts are awarded to our suppliers based on individual merits.

We receive advice from other firms for specific projects. In particular, the Company will regularly seek advice from an independent third party on tax matters.

I will be available at the Company's forthcoming AGM to answer any questions on the work of the Audit Committee.

Marisa Cassoni
Chair, Audit Committee
AO World Plc
3 June 2019

Shareholder relations

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders. The Company has established an Investor Relations function, headed by the Chief Financial Officer.

The Investor Relations function deals with queries from individual shareholders with support as appropriate from the Executive Directors. The Investor Relations team ensures that there is effective communication with shareholders on matters such as strategy and, together with the Chief Executive Officer and Chief Financial Officer, is responsible for ensuring that the Board understands the views of major shareholders on such matters.

There is an ongoing programme of dialogue and meetings between the Executive Directors and institutional investors, fund managers and analysts. This includes formal meetings with investors to discuss interim and final results and maintaining an ongoing dialogue with the investment community through regular contact with existing and potential shareholders, attendance at investment conferences and holding investor roadshows as required. At these meetings, a wide range of relevant issues, including strategy, performance, management and governance are discussed within the constraints of information which has already been made public. The Board is aware that institutional shareholders may be in more regular contact with the Company than other shareholders, but care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time in accordance with legal and regulatory requirements.

The Senior Independent Director is available to shareholders if they have concerns which cannot be raised through the normal channels or if such concerns have not been resolved. Arrangements can be made to meet with him through the Company Secretary.

The Board obtains feedback from its joint corporate brokers, J.P. Morgan Cazenove, Jefferies Hoare Govett and Numis Securities, on the views of institutional investors on a non-attributed and attributed basis. Any concerns of major shareholders would be communicated to the Board by the Executive Directors. As a matter of routine, the Board receives regular reports on issues relating to share price and trading activity, and details of movements in institutional investor shareholdings. The Board is also provided with current analyst opinions and forecasts.

All shareholders can access announcements, investor presentations and the Annual Report on the Company's corporate website (www.ao-world.com).

Report of the Remuneration Committee

Luisa Delgado
Chair, Remuneration Committee

A moment with Luisa Delgado

I was appointed as a member of the Remuneration Committee on my appointment to the Board of AO World Plc in January 2019 and subsequently took over as Chair from Brian McBride, following his decision to step down as Chair. I am a board director of INGKA Holding B.V. (IKEA) and have served on its remuneration committee for more than six years. Originally an HR professional in two multinational companies, for about 20 years, I have considerable experience in defining and implementing compensation and benefits policies to both steer and reward individual and group performance, mindful of the evolving corporate and individual responsibilities towards a broader set of stakeholders, including employees at large, and shareholders.

AO's remuneration policy has evolved significantly since its IPO, particularly with regard to variable remuneration. The AO Incentive Plan, that today combines a cash bonus and deferred share award, with one common set of targets, means that our approach to variable remuneration is simple, fair and will properly reward good performance. I thank Brian for leading us to here through his work as Chair of the Remuneration Committee, and look forward to leading the Committee as we continue to evolve AO's remuneration framework to steer sustainable results and, ultimately, create value for shareholders and all stakeholders.

Highlights of the work of the Remuneration Committee in FY19:
- Implemented the newly approved AO Incentive Plan
- Considered requirements of the new UK Corporate Governance Code, the revised Investment Association Principles of Remuneration and various investor guidance on remuneration
- Determined the remuneration for our Executive Directors, the Executive Committee and certain senior management
- Assisted in the design of, and approved settlement packages for various senior leaders.

This report sets out the remuneration policy for the Directors of AO World Plc, what we paid our Directors in FY19 and how we propose to pay them in FY20. The report is structured as follows:
- The annual statement from the Chair of the Remuneration Committee.
- The Directors' Remuneration Policy (which received shareholder approval at the 2018 AGM).
- The Annual Report on Remuneration (which will be subject to an advisory vote at the 2019 AGM).

Annual Statement by the Chair of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for our financial year ended 31 March 2019.

Pay for sustainable performance; our remuneration policy

Last year, the Remuneration Committee undertook a full review of our remuneration structure to ensure that we would be operating within a framework consistent with best practice to retain and attract high quality talent in a sustainable context.

The outcome of our review and consultation with shareholders was our new Policy which received approval from shareholders (with over 87% of the votes cast in favour). The Policy is straightforward, transparent and aligned with the strategic and financial objectives of the business; it delivers market-competitive packages to the senior executives at base level and rewards the achievement of stretching targets at the other end. It allows us to pay for performance, whilst ensuring that we do not reward failure. It will be an effective tool with which we can motivate and retain our Executives and senior management and provide long-term stewardship.

We are therefore not proposing any immediate changes to the Policy for the year ahead. Being mindful of the requirements of the new UK Corporate Governance Code ("the Code") and the evolving investor and stakeholder remuneration principles, we will keep this under review as we progress through the year and will consider revisiting the policy next year, a year ahead of schedule.

Board changes

This year has seen several notable changes to the Board. Steve Caunce stepped down as CEO, and John Roberts was reappointed as CEO. As said, Brian McBride stepped down from his role as Remuneration Committee Chair and will not offer himself for re-election at the Company's AGM in July. We thank both of them for their contributions to AO.

On his reappointment as CEO, the Remuneration Committee has set John Robert's salary at the same level that Steve received. John did not participate in the AO Incentive Plan for 2018 and did not receive any additional remuneration in respect of this appointment.

Performance and reward for 2018/19 ("FY19")

The Annual Report on Remuneration (set out on pages 86 to 92) describes how the policy approved at last year's AGM has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

Full year performance for FY19 fell within the range of analysts' expectations with Group revenue increasing by c.13.3% year on year to c.£902.5m and Group Adjusted EBITDA losses improved to £0.4m against losses of £3.4m the prior year, including revenue and profit from our newly acquired mobile business. The results were achieved in a challenging UK and overseas markets context and we have exited the year with good momentum.

AO Incentive Plan

The current variable remuneration for our Executives and senior management is structured around our AO Incentive Plan, which received shareholder approval last July (with over 87% of votes cast in favour as said). It combines a cash bonus with a conditional deferred share award, with one set of targets which are measured over a one-year performance period.

The targets for the FY19 award consisted mainly of financial targets, addressing both top-line growth and profit, but also cash flow and two strategic metrics centred on customer satisfaction (measured by NPS scores) and the successful delivery of our purpose, which is central to our culture.

For Group revenue, the threshold target of £860.7m was achieved, but this achievement was below the on-target and stretch levels set.

For Group Adjusted EBITDA, the threshold target of -£7.52m was reached but, excluding EBITDA from our newly acquired mobile business, which the Committee felt appropriate to exclude in its assessment, the next target of -£0.56m and £6.4m at stretch performance, were both missed.

The cash flow target was to achieve a cash outflow of less than £24.6m at threshold performance. Our total cash outflow (excluding cash flows from MPD) was £26.4m and therefore this target was not met.

We were pleased to see market leading customer NPS scores across all our territories, showing that AO continues to delight our customers. With an NPS average of 84, the threshold, on-target and stretch targets for this performance condition (at NPS scores of 70, 75 and 80 respectively) were met.

The final strategic target was centred around the launch and implementation of our Purpose. Over the year, we performed a significant amount of work around our Purpose which has helped cement our culture and unite all our business units with a common goal. We expect this will bear fruit in the longer term as our culture will underpin our future success, both in the ability to grow our eco-system and competencies and ultimately shareholder value. Accordingly, the Remuneration Committee has decided that this performance condition has been met.

In total we have in principle, as a consequence, awarded 50.5% of the maximum AO Incentive Award, which will be settled in cash (one-third) and deferred shares (two-thirds). Only Mark Higgins will receive an award this year as Steve Caunce's award has lapsed following his resignation earlier in the year and John Roberts did not participate in any incentives in respect of 2018 in his non-CEO role last year.

Full details of the cash amount to be paid and share awards to be issued to the CFO under the AO Incentive Award are disclosed on page 88.

Performance Share Plan – 2016 award

This is the third year in which we have had a completed PSP award cycle, with the performance period of our 2016 PSP Award spanning the three financial years ending 31 March 2019. All Executive Directors in office during FY19 received options in this award cycle.

The stretching targets set in 2016 were based one-third on relative TSR (requiring the share price to perform above the median share price in a comparator group consisting of FTSE-listed retailers); one-third on Group Adjusted EBITDA (requiring Adjusted EBITDA to increase from -£3.9m in FY16 to £23m in FY19, for a third to vest and to £35m for full vesting), and the final third on revenue growth (requiring revenue to increase from £599m in FY16 to £899m for a third to vest and to £1.3bn for full vesting). Only the threshold target for the revenue performance condition has been met meaning that for the Executive Directors (excluding Steve Caunce who stepped down as CEO in the year and has since resigned) 8.59% of the maximum award will vest.

Full details of the shares to be awarded under the 2016 Performance Share Plan award are disclosed on page 89.

Approach to Remuneration for 2019/20 ("FY20")

Executives

For the year ahead base salaries have been reviewed and no increases have been awarded.

On Pension levels, we recognise that the Code calls for parity between the Executives and the wider workforce. We are not proposing any immediate change to pension levels or other benefits for current incumbents. The current incumbents have a pension level of 12.75%. However, we have decided to place, going forward, any newly appointed Executive on the same level of pension contribution received by the wider workforce, i.e. 9%.

In terms of variable pay, the Executives will be entitled to participate in the AO Incentive Plan, where performance conditions have been set in line with the Company's strategic and financial goals. Financial metrics – including revenue, Group Adjusted EBITDA and cash flow – represent the majority of targets, with the remainder based on achievement of key strategic milestones (see page 91 for further details). The maximum opportunity will be 300% of salary (unchanged from the prior year), with no more than one-third paying out in cash and the remaining portion being deferred into shares vesting subject to business performance after a further three-year period. We recognise that the Code calls for a total vesting and holding period of five years or more and will look to address this in subsequent years. Further details on the implementation of the AO Incentive Plan for FY20 are set out on page 91.

During the year we considered the Code provisions relating to post-cessation of office shareholding requirements for Executive Directors. We have not implemented any particular new requirements this year, but will continue to monitor this area in terms of investor guidance and market practice during the year to come, and look to address in a revised policy.

Non-Executives

Fees for the Non-Executive Directors (including the Chairman) were reviewed during the year. This review took into account the period in which the fees have not been reviewed and were informed by independent benchmark data of retail and technology sector peers as well as FTSE-listed companies of equivalent size and scope to AO. Accordingly, certain increases have been agreed and, for FY20, this will be the first year since IPO where the basic fee for Non-Executive Directors has been increased and the first change to the Chairman's salary since his appointment in 2016. The base fee for the Non-Executive Directors (excluding the Chairman) were decided by the Executive Directors and the Chairman, for an increase of £5,000 to £55,000. Fees for chairing committees remain unchanged whilst the additional fee for holding the role of Senior Independent Director has also been increased by £5,000 to £10,000. Geoff Cooper's fee, as Company Chairman, decided by the Remuneration Committee and the Executive Directors, has been increased from £165,000 to £200,000 per annum. This is a consolidated all-inclusive fee for all Board responsibilities, including chairing the Nomination Committee.

Further details regarding the implementation of our policy in the year ahead are provided on pages 90 and 91.

UK Corporate Governance Code

The new UK Corporate Governance Code comes into effect for AO for FY20. We are well-placed to comply with many of the expanded requirements relating to remuneration under the new Code. Specifically, in response to the new Code we have already formally expanded the remit of the Remuneration Committee to include consideration of pay below the main Board.

We will review our programme rules for future incentives to ensure that the provisions relating to discretion, malus and clawback align with best practice. As noted above, the Committee is also closely monitoring developments in areas covered by the new Code such as post-employment shareholding requirements, and in respect of executive pension alignment of current incumbents with the wider workforce. This is in addition to the Remuneration Committee keeping abreast of broader best and market practices.

Employees

As set out in the Corporate Governance Report on page 60 we have appointed Jacqueline de Rojas as our "People Champion" to drive engagement with the workforce generally. While her role is not solely focused on remuneration, I expect to work with Jacqueline – alongside our new Chief People Officer – in drawing up a programme of activities to ensure both transparency of remuneration and that employee views are taken into account when setting and determining Executive remuneration.

I hope this sets out clearly how the Committee has implemented the existing policy during FY19, and how we propose to move forward and implement the policy in FY20, as well as continuously monitor developments to update it on an annual basis.

I look forward to engaging with shareholders in the year ahead on Executive remuneration and will be available at the Company's AGM on 17 July 2019 to answer any questions.

Luisa Delgado
Chair, Remuneration Committee
AO World Plc
3 June 2019

Policy Report

This part of the Directors' Remuneration Report sets out the Directors' remuneration policy for the Company ("the Policy") and has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UKLA's Listing Rules. The Policy has been developed taking into account the principles of the UK Corporate Governance Code ("the Code") as it currently applies.

This Policy was put to a binding shareholder vote at the 2018 AGM and received support from in excess of 87% of the votes cast.

It is intended that the Policy will apply for three years following approval, but the Policy will be kept under review on an annual basis.

Role of the Committee in setting the Policy

The Committee is responsible for determining, on behalf of the Board, the Company's policy on the remuneration of the Executive Directors, the Chairman and other senior executives of the Group.

The Committee's overarching aims in setting the Policy are to attract, retain and motivate high-calibre senior management and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, to incentivise growth and to align the interests of Executive Directors with those of shareholders. In promoting these objectives, the Committee aims to ensure that no more than is necessary is paid and has set a policy framework that is structured so as to adhere to the principles of good Corporate Governance and appropriate risk management. The Committee also recognises the importance of promoting a strong "collegiate culture" and this is reflected in the approach to setting pay across the whole senior management population.

The Committee's terms of reference are available on the Company's website at www.ao-world.com.

These were recently updated to reflect the principles set out in the new UK Corporate Governance Code.

How the views of shareholders are taken into account

The Committee understands that constructive dialogue with shareholders plays a key role in informing the development of a successful remuneration policy and will seek to actively engage with shareholders in these matters. The Committee will consider any further shareholder feedback received in relation to the AGM each year. Any such feedback, plus any additional feedback received from time to time, will be considered as part of the Company's annual review of the Policy.

In addition, when it is proposed that any material changes are to be made to the Policy, the Committee Chairman will inform major shareholders of these in advance and will ensure that there is opportunity for discussion, in order that any views can be properly reflected in the Policy formulation process.

While deliberating on the proposed incentive structure put forward at last year's AGM, we actively sought shareholder opinions on the incentive structure proposed in the Policy and welcomed the opportunity to discuss our proposals with a number of key investors and shareholder advisory bodies. As noted above the vast majority of shareholders supported the new incentive scheme – which was put into operation for the year under review.

Consideration of employment conditions elsewhere in the Group

The Company has not historically consulted with employees on executive remuneration. However, when setting the Policy for Executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group. This process ensures that any increase to the pay of Executive Directors is set in an appropriate context and is appropriate relative to increases proposed for other employees. The Committee is also provided with periodic updates on employee remuneration practices and trends across the Group. Going forward and, in light of the new UK Corporate Governance Code that will apply to the Company's financial year ending 31 March 2020, we recognise that consultation with employees is desired across the investor community. We have appointed Jacqueline de Rojas to be our "People Champion" and are exploring ways to ensure effective engagement. The Remuneration Committee is also mindful of the code requirements to align Executive pension contributions with the wider workforce. Whilst the Committee does not currently anticipate changing the contributions enjoyed by the current Executive Directors, for any new appointments it will seek to ensure better alignment.

Consideration of the impact of remuneration on risk

The Committee is committed to keeping the balance between reward and risk under review to ensure the Policy is aligned appropriately with the risk appetite of the Company. The Committee remains satisfied that the proposed Policy is appropriately aligned with the risk profile of the Company and that the remuneration arrangements do not encourage excessive risk taking.

Summary of our remuneration policy

The table below provides a summary of the key aspects of the Policy for Executive Directors.

Element	Base salary	Pension
Purpose and link to strategy	— To aid the recruitment and retention of high-calibre Executive Directors — To reflect experience and expertise — To provide an appropriate level of fixed basic income	— To aid recruitment and retention of Executive Directors with the expertise and experience to deliver the Company's strategy — To provide an appropriate level of fixed income
Operation	— Normally reviewed annually, with any increase normally effective on 1 April — Set initially at a level required to recruit suitable Executive Directors, reflecting their experience and expertise — Any subsequent increase determined by the Committee may be influenced by (a) the scope of the role; (b) experience and personal performance in the role; (c) average change in total workforce salary; (d) performance of the Company; and (e) external economic conditions, such as inflation — Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) may be taken by the Committee	— Executive Directors may receive an employer's pension contribution and/or a cash payment in lieu of pension
Maximum opportunity	— Whilst no monetary maximum has been set, annual increases will generally be linked to those of the average of the wider workforce — Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility or experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group — The Committee retains the flexibility to set the salary of a new hire at a discount to the market initially, and implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to Group and/or individual performance	— Employer's defined contribution and/or cash supplement of up to 12.75% of salary
Framework used to assess performance	— The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates	— N/A

Other benefits	"AO Incentive Plan"
— To provide a competitive benefits package to aid recruitment and retention of Executive Directors with the expertise and experience to deliver the Company's strategy	— To reward the delivery of annual objectives relating to the business strategy — Through significant deferral into the Company's shares to align the long-term interests of Executive Directors with those of shareholders
— Directors are entitled to benefits, including a car allowance or company car, private family medical cover, death in service, life assurance and other Group-wide benefits offered by the Company. Executive Directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees — In certain circumstances the Committee may also approve additional allowances relating to relocation of an Executive Director or other expatriate benefits required to perform the role — The Committee may provide other employee benefits to Executive Directors on broadly similar terms to the wider workforce — The Committee has the ability to reimburse reasonable business-related expenses and any tax thereon	— The vesting of awards will be subject to the satisfaction of performance conditions set by the Committee at the time of grant and measured over a performance period — The performance period will be of at least one year and will normally be one financial year of the Company — Upon completion of the performance period the Committee will deliver a portion of the award in cash and defer the remaining portion into an award of shares — No more than one-third of the total award will be delivered in cash — Deferred share awards will be subject to additional performance underpin conditions measured over a period of at least three years running from the end of the performance period — Awards are not pensionable — Awards are subject to recovery provisions that enable the Committee to withhold or recover the value of awards within five years of the grant date where there has been a misstatement of accounts, an error in assessing any applicable performance condition or employee misconduct
— As the value of benefits may vary from year to year depending on the cost to the Company and the Executive Director's individual circumstances, no monetary maximum has been set — The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums)	— Up to 300% of salary for each Executive Director in respect of any financial year
— N/A	— Awards are based on performance measures with stretching targets as set and assessed by the Committee — Financial measures (e.g. EBITDA, Revenue, Cash flow) will represent the majority (at least 70%) of the award, with any other measures representing the balance — Subject to the above, measures and weightings may change each year to reflect any year-on-year changes to business priorities and ensure they continue to be aligned to the business strategy — The Committee has discretion to adjust the outcome where appropriate to ensure it is a true reflection of the overall performance of the Company during the performance period. Any use of discretion will be detailed in the following year's Annual Report on Remuneration — The Committee has discretion to adjust the number of shares if it is not deemed that the value of the award does not appropriately reflect the underlying performance of the Company over the vesting period — No vesting will occur below a threshold level of performance as set by the Committee on a year-by-year basis

Implementation of the policy for the Company's financial year ended 31 March 2019 can be found in the Annual Report on Remuneration.

Historic arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before 17 July 2014 (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before the Policy came into effect, provided that the terms of the payment were consistent with the remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

For the purposes of transparency, the terms of the awards granted prior to 2018 under the PSP are summarised below:

Element	Performance Share Plan ("PSP")
Purpose and link to strategy	— Intended to align the long-term interests of Executives with those of shareholders — To incentivise the delivery of key strategic objectives over the longer term
Operation	— The PSP was introduced on Admission in 2014. Awards of free performance shares may be granted annually in the form of conditional awards or nil cost options — Vesting is dependent on performance targets being met during the performance period and continued service of the Directors — A dividend equivalent provision exists which allows the Committee to pay dividends on vested shares at the time of vesting
Maximum opportunity	— Maximum limit contained within the plan rules is 200% of salary although up to 300% of salary may be made in exceptional circumstances — Normal Policy awards may be made at lower levels than this
Framework used to assess performance	— Awards vest after three years, based on challenging targets measured over a three-year period, the majority of which (at least 70%) will normally be based on financial performance metrics — Performance measures and weightings will be reviewed annually by the Committee prior to each grant, and the Committee has discretion to vary measures and weightings as appropriate to ensure they continue to be aligned to the business strategy — No more than 25% vests at threshold — The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure it is a true reflection of the overall performance of the Company over the performance period. Any use of discretion will be detailed in the following year's Annual Report on Remuneration

Clawback and withholding provisions apply in circumstances where the Committee considers it to be appropriate where there has been a misstatement of accounts, or an erroneous calculation used to calculate the grant or vesting of an award for up to three years after vesting.

Prior to vesting of an award, an award may also be reduced if the Executive Director engages in conduct justifying summary dismissal.

Terms common to the AO Incentive Plan and the PSP

Awards under any of the Company's incentive plans referred to in this report, namely the AO Incentive Plan and Performance Share Plan ("PSP"), may:

a) be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
b) have any performance condition or underpin applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition or underpin would be more appropriate and not materially less difficult to satisfy;
c) incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under a share-based award that vest up to the time of vesting. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
d) be settled in cash at the Committee's discretion; and
e) be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may materially affect the Company's share price.

The Committee also retains the discretion within the Policy to adjust performance targets and/or set different performance measures and alter weightings if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

Choice of performance measures and approach to target setting

The performance metrics and targets that are set for the Executive Directors via the AO Incentive Plan are carefully selected to align closely with the Company's strategic plan.

The AO Incentive Plan is determined on the basis of performance against specific performance indicators and strategic objectives set annually. The precise metrics chosen, along with the weightings of each, may vary in line with the Company's evolving strategy from year to year. The Committee will review the performance measures and targets each year and vary them as appropriate to reflect the priorities for the business in the year ahead.

Where possible, the Committee will disclose the targets for each of the Executive Directors' awards in advance in the Annual Report on Remuneration, but targets will generally be disclosed retrospectively where they are considered to be commercially sensitive. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each performance year and will consult with major shareholders in the event of any significant proposed change.

Challenging targets are set whereby modest rewards are payable for the delivery of threshold levels of performance, rising to maximum rewards for the delivery of substantial out-performance of our financial and operating plans.

Share ownership guidelines

The Committee's Policy is to have formal shareholding guidelines for the Executive Directors which create alignment between their interests and those of shareholders.

The required level is set at 200% of salary. Where the holding is not already attained it is required to be achieved through retention of at least 50% of shares or the vesting of awards (on a net of tax basis) from share plans.

Differences in remuneration policy for Executive Directors compared to other employees

The Committee has regard to pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader workforce when determining the annual salary review for the Executive Directors.

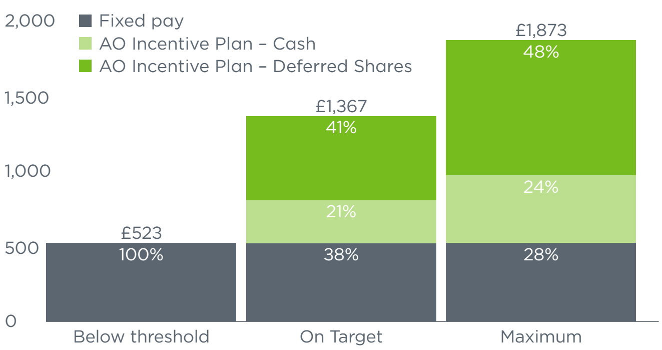
Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related incentives are generally not provided outside of senior management as they are reserved for those considered to have the greatest potential to influence overall levels of performance. That said, whilst the use of the AO Incentive Plan is confined to the senior managers in the Group, the Company is committed to widespread equity ownership, and it has historically rolled out, and intends in the future to roll-out, an all-employee SAYE scheme on an annual basis, in which Executive Directors are eligible to participate on a consistent basis to all other employees.

The level of performance-related pay varies within the Group by grade of employee, but the Policy is applied consistently across each grade of the senior management population.

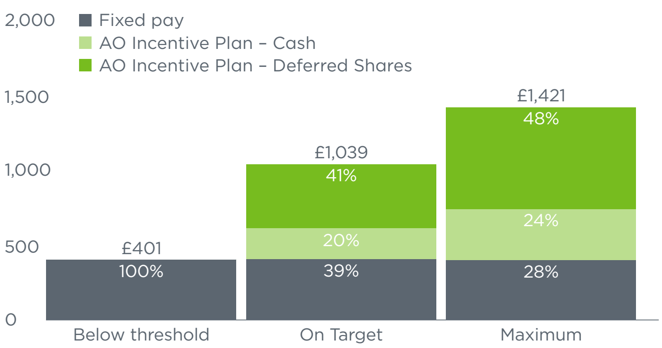
Reward scenarios

Under the Policy, a significant proportion of remuneration received by Executive Directors is variable and dependent on the performance of the Company. The charts below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: below target and maximum and the mid-point, between based on implementation of the AO Incentive Plan for the year ahead.

CEO total remuneration opportunity at different levels of performance (£000)



CFO total remuneration opportunity at different levels of performance (£000)



The charts are indicative as share price movement and dividend accrual have been excluded.

Assumptions:
- Below threshold = fixed pay only (i.e. basic salary, benefits and pension).
- Target = fixed pay plus 62.5% of maximum Incentive payout.
- Maximum = fixed pay plus 100% of maximum Incentive payout.
- Fixed pay includes the base salaries for each Executive Director applying on 1 April 2019 together with pension (at 12.75% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as gym membership and medical cover) based on the cost of supplying those benefits in the 2019 financial year.
- Maximum Incentive is equivalent to 300% of salary.

Service contracts, and loss of office payments

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that Executive Directors' service contracts must provide that no more than 12 months' notice to terminate employment (by either party) must be given. Going forward the Remuneration Committee would expect to place newly appointed Executives on no more than six months' notice.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events such as gross misconduct. The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account by the Committee when determining amounts payable on/following termination. Our Policy is to reduce compensatory payments to former Executive Directors where they receive remuneration from other employment during the notice period. The Committee will consider the particular circumstances of each leaver on a case-by-case basis and retains flexibility as to at what point, and the extent to which, payments would be reduced. Details will be provided in the relevant Annual Report on Remuneration should such circumstances arise.

In summary, the contractual provisions are as follows:

Provision	Detailed terms
Notice period	12 months from both the Company and the Executive Directors
Termination payment	Payment in lieu of notice of 115% of base salary, which is calculated so as to cover the value of contractual benefits and pension, normally subject to mitigation and paid monthly* In addition, any statutory entitlements would be paid as necessary
Change of control	There will be no enhanced provisions on a change of control

* The Committee may elect to make a lump sum termination payment (up to a maximum of 12 months' base salary and contractual benefits) as part of an Executive Director's termination arrangements where it considers it appropriate to do so.

Incentives on termination

AO Incentive Plan on termination

Any cash or share entitlements granted under the AO Incentive Plan will be determined on the basis of the relevant plan rules. The default position is that where the Executive Director leaves due to ill health, injury or disability, or the sale of their employing company or business out of the Group, the "leaving" Executive Director will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion) the "leaving Executive Director" will be classed as a bad leaver and any outstanding awards and unvested share awards will lapse immediately when the Executive Director ceases to be employed by or to hold office with the Group.

If deemed by the Committee to be a "good" leaver:

a) during the performance period, awards will ordinarily continue to be satisfied in accordance with the rules of the plan; and
b) during the vesting period, deferred share awards will ordinarily continue to vest on the date when it would have vested as if he had not ceased to be a Group employee or Director.

The extent to which awards may be satisfied and deferred share awards may vest in these circumstances will be determined by the Committee, taking into account the satisfaction of any relevant performance or underpin conditions measured over the original performance period.

Unless the Committee decides otherwise, any outstanding awards will also be reduced to take into account the proportion of the performance period which has elapsed on the individual's cessation of office or employment.

However, the Committee retains discretion to allow awards to be satisfied and deferred share awards to vest as soon as reasonably practicable after the individual's cessation of office or employment. If the participant ceases to hold office or employment prior to the satisfaction of an award, the Committee may also decide to satisfy awards entirely in cash, rather than delivering a deferred share award to the Executive Director.

If a participant dies, unless the Board decides otherwise, his outstanding awards will be satisfied and deferred share awards will vest as soon as reasonably practicable after the date of his death on the basis set out for other "good leavers" above.

PSP on termination

Any share-based entitlements previously granted under the Company's PSP will be determined on the basis of the relevant plan rules. In determining whether an Executive Director should be treated as a good leaver under the plan rules the Committee will take into account the performance of the individual and the reasons for their departure. The default position is that where employment ceases due to injury or disability, redundancy or retirement, the "leaving" Executive Director will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion) the "leaving employee" will be classed as a bad leaver (in which case unvested PSP awards lapse). In the event that the Committee does class an Executive Director as a good leaver, the Committee will set out its rationale in the Annual Report on Remuneration following departure. For good leavers, awards will continue to vest in accordance with the original vesting date unless the Committee determined that they should vest as soon as is reasonably practicable following the date of cessation. Further, awards ordinarily vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to alter the basis of time pro-rating if it deems this appropriate. However, if the time pro-rating is varied from the default position, an explanation will be set out in the Annual Report on Remuneration following departure. For the avoidance of doubt, performance conditions will always apply to awards for good leavers, although the Committee may determine that it is appropriate to assess performance over a different period than the default three-year period.

If an individual dies holding unvested PSP awards, his awards will vest at the time of death.

Approach to recruitment and promotions

The remuneration package for any new Executive Director would be set in accordance with the terms of the Company's approved Policy in force at the time of appointment. In addition, with specific regard to the recruitment of new Executive Directors (whether by external recruitment or internal promotion), the Policy will allow for the following:

- Where new joiners or recent promotions have been given a starting salary at a discount to the mid-market level, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be awarded over the following few years, subject to satisfactory individual performance and development in the role.
- An initial award granted to any new Executive Director under the AO Incentive Plan would operate in accordance with the terms of the Policy, albeit with the opportunity pro-rated for the period of employment. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets in the first year.
- The Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and shareholders. Any such additional payments would be based solely on remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Replacement share awards, if used, will be granted using the Company's existing PSP to the extent possible. Awards may also be granted outside of the Company's existing incentive arrangements if necessary and as permitted under the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.
- For an internal executive appointment, any variable pay element awarded in respect of the former role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved fee structure policy in force at that time.

Change of control

PSP

In the event of a takeover, PSP awards will vest subject to the determination of the performance conditions as determined by the Committee and, unless the Committee determines otherwise, the proportion of the three-year vesting period that has elapsed.

AO Incentive Plan

Awards will be satisfied and deferred share awards will vest taking into account the extent to which the performance and/or underpin conditions have been satisfied. In these circumstances, the Committee may determine that any outstanding awards are settled in cash, rather than delivering a deferred share award. Unless the Committee determines otherwise, outstanding awards will also be reduced to take into account the proportion of the performance period that has elapsed. If the Company is wound up or there is a demerger, delisting, special dividend or other event, which, in the Committee's opinion, may materially affect the Company's share price, the Committee may allow awards to be satisfied and deferred share awards to vest on the same basis as a takeover.

Chairman and Non-Executive Directors' letters of appointment

The Chairman and Non-Executive Directors do not have service contracts with the Company, but instead have letters of appointment. The letters of appointment are usually renewed every three years but may be renewed on an annual basis where deemed appropriate. Termination of the appointment may be earlier at the discretion of either party on three months' written notice. None of the Non-Executive Directors is entitled to any compensation if their appointment is terminated. Appointments will be subject to re-election at the AGM.

Non-Executive Directors' fees

The Non-Executive Directors' fees policy is described below:

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To recruit and retain high calibre non-executives	— Fees are determined by the Board, with Non-Executive Directors abstaining from any discussion or decision in relation to their fees — Non-Executive Directors are paid an annual fee and do not participate in any of the Company's incentive arrangements or receive any pension provision — The Chairman is paid a consolidated all-inclusive fee for all Board responsibilities — The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the Senior Independent Director role — The fee levels are reviewed on a periodic basis, with reference to the time commitment of the role and market levels in companies of comparable size and complexity — Non-Executive Directors shall be entitled to have reimbursed all fees (including travel expenses) that they reasonably incur in the performance of their duties, including tax	There is no cap on fees. Non-Executive Directors are eligible for fee increases during the three-year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.

Annual Report on Remuneration

The Annual Remuneration for the year ended 31 March 2019 was structured within the framework of the remuneration policy adopted by shareholders in 2018 and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 17 July 2019.

Single figure of total remuneration for 2018/19 (Audited)
The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2018 to 31 March 2019 (or relating to that period in the case of Bonus, PSP and the AO Incentive) and, for comparison, the amounts earned during the period 1 April 2017 to 31 March 2018 (or relating to that period in the case of variable remuneration).

		Salaries and fees £	Benefits[4] £	Pension[5] £	Bonus[6] £	Value of SAYE[7] £	Value of PSP[8] £	AO Incentive Award Cash[9] £	Total £
Executive Directors									
John Roberts[1]	2018/19	400,000	15,560	51,000	200	–	42,463	–	**509,223**
	2017/18	390,000	13,877	49,725	200	4,504	–	–	**458,306**
Mark Higgins[2]	2018/19	340,000	17,812	43,350	200	–	56,671	171,700	**629,679**
	2017/18	340,000	18,304	43,350	191,450	4,504	–	–	**597,608**
Steve Caunce[3]	2018/19	401,000	15,485	51,128	200	–	–	–	**467,813**
	2017/18	450,000	15,452	57,375	253,325	4,504	–	–	**780,656**
Chairman									
Geoff Cooper	2018/19	165,000	1,244	–	–	–	–	–	**166,244**
	2017/18	165,000	3,347	–	–	–	–	–	**168,347**
Non-Executive Directors									
Christopher Hopkinson	2018/19	50,000	–	–	–	–	–	–	**50,000**
	2017/18	50,000	–	–	–	–	–	–	**50,000**
Brian McBride[10]	2018/19	63,333	1,581	–	–	–	–	–	**64,914**
	2017/18	65,000	3,009	–	–	–	–	–	**68,009**
Marisa Cassoni	2018/19	60,000	267	–	–	–	–	–	**60,267**
	2017/18	60,000	2,008	–	–	–	–	–	**62,008**
Jacqueline de Rojas[11]	2018/19	50,000	697	–	–	–	–	–	**50,697**
	2017/18	17,820	459	–	–	–	–	–	**18,279**
Shaun McCabe[12]	2018/19	34,295	–	–	–	–	–	–	**34,295**
	2017/18	–	–	–	–	–	–	–	**0**
Luisa Delgado[13]	2018/19	14,167	–	–	–	–	–	–	**14,167**
	2017/18	–	–	–	–	–	–	–	**0**

1. John Roberts reassumed the role of CEO in February 2019 and Steve Caunce ceased to be an Executive Director. Accordingly, the basic salary reported for John Roberts for FY19 is calculated at 10 months' pay at the Founder £390,000 rate of pay and two months' pay at the CEO/£450,000 rate of pay. Benefits include medical and life assurance and a car allowance of £12,000 paid in cash.
2. For Mark Higgins, benefits include gym membership, medical and life assurance, car allowance and private fuel.
3. The basic salary reported for Steve Caunce for FY19 is calculated at 10 months' pay at the CEO/£450,000 rate and two months' pay at his revised salary of £156,000 per annum which he earned as employee of the Company but not an Executive Director. Benefits for FY19 include medical and life assurance and a cash car allowance at a rate of £12,000 per annum for the period 1 March 2018 to 31 January 2019 and at a rate of £4,800 for the period 1 February 2019 to 31 March 2019.
4. Benefits for the Non-Executive Directors are the values of expenses incurred in connection with attending Board meetings and Company events which the Company has paid for.
5. Executive Directors are entitled to Company pension contributions of 12.75% of gross basic salary. £10,000 is paid into a pension and the balance is paid in cash (after deducting employer National Insurance contributions at 13.8%).
6. All Executive Directors received an attendance bonus of £200 which is paid Group-wide to employees with the relevant attendance. There was no other bonus scheme in place for FY19, rather the AO Incentive Scheme which combines a cash award and share award and is reported on separately – see Note 9.
7. All of the Executive Directors participated in full in the 2018 AO Sharesave Scheme (withdrawing from previous schemes) and were granted options over 20,224 shares. The SAYE value is calculated by multiplying the number of shares under option by the value of discount (in pounds sterling (being £0.2225)) at the time the scheme was launched. The exercise price for each award was set at 80% of the market value of the share price prior to the scheme launch.

8. The threshold target for the revenue performance condition of 2016 PSP Award (covering a performance period 1 April 2016 to 31 March 2019) was met and accordingly 8.59% of the maximum award will vest in July. Following Steve stepping down as CEO and his subsequent resignation, Steve's award has lapsed. John Roberts is due to receive 43,153 shares (before tax) and Mark Higgins is due to receive 57,520 shares (before tax). The value set out in the above table assumes a share price of 98.4p, the share price at 29 March 2019, but actual value will depend on the share price at the point pf vesting.
9. Both Steve Caunce and Mark Higgins were granted an award under the AO Incentive Plan of 300% of salary for the performance period of FY19. Following Steve stepping down as CEO and his subsequent resignation, Steve's award has lapsed. For Mark, following attainment of certain of the performance conditions 50.5% of the award is due to vest in July of which one-third will be paid in cash with the remaining two-thirds of value payable in the form of a deferred share award which, subject to continued employment and attainment of the performance underpin, will be released in July 2022.
10 Brian McBride has received a basic Non-Executive Director pay of £50k per annum plus £5k per annum as his Senior Independent Director fee for both years reported. Until February 2019 he also received and additional £10k fee for chairing the Remuneration Committee.
11 Jacqueline de Rojas was appointed as a Non-Executive Director on 23 November 2017. The figure for FY18 reflects pro-rated basic salary for Non-Executive Directors £50,000 from the date of appointment.
12. Shaun McCabe was appointed as a Non-Executive Director on 25 July 2018. The figure for FY19 reflects pro-rated basic salary for Non-Executive Directors £50,000 from the date of appointment.
13. Luisa Delgado was appointed as a Non-Executive Director on 1 January 2019. The figure for FY19 reflects pro-rated basic salary for Non-Executive Directors £50k from the date of appointment, and two months' Remuneration Committee Chair fee at £10,000 per annum.

Details of variable pay earned in 2018/19 (Audited)

AO Incentive Award

Steve Caunce and Mark Higgins were both granted awards under the AO Incentive Plan (which combines a cash award and conditional deferred share award) of up to 300% of salary, for the year ended 31 March 2019. John Roberts was not granted an award.

The targets for the AO Incentive Award were weighted towards financial metrics, with 40% of maximum award subject to Group Revenue performance conditions, 30% of maximum award subject to Group Adjusted EBITDA performance conditions, 10% of maximum bonus subject to a cash flow target, with the remaining 20% subject to the achievement of strategic objectives, split equally against a customer service/satisfaction metric (NPS scores) and a culture objective; the successful launch of our purpose.

The strategic target of maintaining outstanding customer satisfaction, as the business grows is critical to our future success; indeed "customer" is a key strategic pillar as can be seen on pages 20 to 24. AO is renowned for good service and it is the way we execute our performance which stands us apart from our competitors. As volume grows and we make more deliveries (either through our own infrastructure or utilising third party logistics providers), or we acquire new businesses, it is vital that the customer satisfaction remains strong, to drive repeat business and as we heavily rely on customer recommendations to attract new customers.

As can be seen from page 20 and 24 and 25 culture underpins our business model and strategy and successfully launching the purpose amongst AO'ers will help to provide greater unity across the Group, promote the culture and give us a guiding principle for all our decision making.

The following table sets out the targets, actual performance against these targets and accordingly, the applicable payout for the 2018 AO incentive Award.

Measure (weighting)	Targets		% payout at threshold (for this element)	Performance achieved*	Total Payout
Group Revenue (40%)	Threshold	£860.7m	25%	£872.5m	13.9%
	On target	£906m	62.5%		
	Stretch	£951.3m	100%		
Group Adjusted EBITDA (30%)	Threshold	£-7.52m	25%	£-1.9m	16.6%
	On target	£-0.56m	62.5%		
	Stretch	£6.4m	100%		
Cash flow (10%)	Threshold	£-24.6m	25%	£-26.4m	Below Threshold
NPS (10%)	Threshold	70	25%	84	10%
	On target	75	62.5%		
	Stretch	80	100%		
Successful launch of purpose (10%)	Remuneration Committee evaluation of performance during the year		0-100%	Achieved	10%
				Total	50.5%

Performance against financial targets

The performance achieved, as set out in the above table, excludes revenue and Adjusted EBITDA of our newly acquired mobile phones business (whereas our reported results include such performance, since completion of the acquisition). The Committee discussed whether such inclusion was appropriate in our assessment of the attainment of the performance conditions and we agreed it was appropriate to exclude such revenue and profit. This decision was made on the basis that the targets were set relatively recently based on our organic growth expectations and the inclusion would have a significant effect on the total amount vesting (and therefore the corresponding cash and award of conditional deferred shares).

Under the cash flow performance condition for the relevant part of the award to vest we needed to achieve a threshold cash outflow of less than £24.6m. Our cash outflow was £26.4m and therefore this target was not met.

Performance against strategic targets
The Committee is delighted that customer satisfaction, measured via NPS, has remained strong over the year. For the UK, Germany and the Netherlands respectively we have achieved average NPS scores of 85, 77 and 89, which corresponds to a Group average of 84. We believe this is market leading and a good achievement by the team as the business continues to grow across categories and countries and accordingly have determined that this performance condition has been met in full.

The Committee has also analysed whether the purpose has successfully launched and achievement of this performance was subject to the Committee's review of relevant performance during the year in the area. In that respect, the Committee considered the work carried out around its launch and the results of an employee survey undertaken following implementation, as to whether it has landed successfully with AO'ers. The Committee is impressed, with how, since its launch, it is being used to drive and monitor performance, is driving mission statements for our individual business units, which in turn unites the Group with a common goal. The purpose is becoming ingrained in the culture, culture being a key strategic pillar of our strategy. The Committee notes that a key output of the purpose is customer focus, which is also reflected in our NPS scores.

Overall the Committee is satisfied that the purpose has been launched successfully and has driven and continues to drive decision making across the business. Based on this evidence, the Committee has determined that this performance condition has been met.

In total therefore, we have in principle awarded 50.5% of the maximum award to the CFO. (Steve Caunce's award has lapsed.)

	Max Opportunity (% Salary)	Outcome % Max	Cash award (1/3rd)[1]	Share award (2/3rd)[2]
CFO	300% Salary	50.5%	£171,700	£343,400

1 The cash element will vest and will be paid in July following approval of the accounts.
2 The share award is deferred for a period of three years, and the vesting of these shares subject to the performance of the business until the completion of our financial year ending 31 March 2022 as well as the CFO's continued employment.

Vesting of long-term incentive awards
In July 2016 we granted a long-term incentive award under the AO Performance Share Plan to all our Executive Directors (John Roberts, Steve Caunce and Mark Higgins).

The Award was subject to performance over the three-year period ended 31 March 2019. The stretching targets set in 2016 were based one-third on relative TSR (to a comparator group of listed retail businesses); one-third on Group Adjusted EBITDA growth and on-third on Group Revenue growth.

The following table sets out the targets at threshold, "on-target" and stretch for the Group Revenue and Adjusted EBITDA targets, actual performance against these targets and accordingly, the applicable payout:

Measure (weighting)	Targets		% payout at threshold (for this element)	Performance achieved*	Payout
Group Revenue Growth (33.3%)	Threshold	50%	25%	50.7% growth	8.59%
	On target	85%	62.5%		
	Stretch	120%	100%		
Group Adjusted EBITDA (33.3%)	Threshold	£23m	25%	£-0.4m	0%
Relative TSR (33.3%)	Threshold	Median	25%	Below Median	0%
	Stretch	Upper Quartile	100%		

* The performance achieved, as set out in the above table, when calculating Group Revenue Growth includes revenue of our newly acquired mobile phones business, since completion of the acquisition (in line with our reported results). The Committee determined that such inclusion was appropriate in the assessment of the attainment of the performance conditions. This decision was made on the basis that the targets are long-term and were set over three years ago i.e. at a time when the European operations were in their infancy and before we had a real grasp on the market and cultural dynamics of operating overseas. The targets were set prior to the Brexit referendum and before the knock-on impact of the result on market dynamics had manifested itself. We further believe that, at least when assessing long-term performance, investing in the acquisition of earnings accretive businesses should be treated as no different than investing in, for example, new acquisition channels or IT infrastructure to supplement organic growth.

The Committee recognises the inconsistent treatment between PSP attainment assessment and the AO Incentive Plan assessment but for the reasons set out above, believe it is appropriate in the specific circumstances. For the avoidance of doubt, the Committee always robustly reviews the Company's performance (including its share price performance) and how this translates into incentive vesting under multiple scenarios in order to ensure appropriate remuneration overall. From that perspective this award vesting at a modest level, 8.59% of maximum reflects the challenging market which AO has faced over the performance cycle of the 2016 PSP despite reasonable performance in the longer term.

In total therefore, 8.59% of the maximum award will be awarded to the CEO and CFO, which will result in them being able to exercise their nil cost options over 43,153 and 57,537 shares respectively.

	% Max Vesting	Number of nil cost options vesting
John Roberts		43,153
Mark Higgins	8.59%	57,537
Steve Caunce		Nil[1]

1 Steve Caunce has stepped down as CEO and his full award has since lapsed.

Payments to past Directors and loss of office payments (Audited)
There were no payments to past Directors or loss of office payments made in the year ended 31 March 2019, save to Steve Caunce who resigned from the Board on 31 January 2019 and details of his payments are set out in the relevant sections above.

Directors' shareholdings (Audited)
Directors' shareholdings as at 31 March 2019 are set out below in Table 1, overleaf. No PSP options vested during the year as historic performance conditions were not met, however, as noted above John Roberts and Mark Higgins are expected to exercise their nil cost share options following partial achievement of the 2016 PSP award performance conditions, in July.

There have been no changes to Directors' shareholdings during the period from 1 April 2019 to the date of this report, save for the gift to charity by John Roberts of 700,000 shares on 4 April 2019.

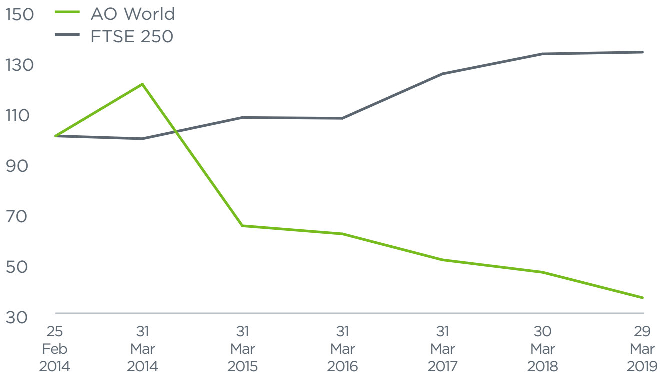
Percentage change in remuneration levels (Unaudited)
The table below shows the movement in the salary, benefits and bonus against the cash element of the AO Incentive Award for the Chief Executive between the current and previous financial year compared to that for the average employee. For the benefits and bonus/Incentive Award (cash element) per employee, this is based on those employees eligible to participate in such schemes.

	Chief Executive	Average per employee
Salary	0%	0.07%[1]
Benefits[2]	0%	0%
AO Incentive Award – cash element/ bonus[3]	N/A	-27.1%[3]

1 Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees in each year divided by the average number of employees.
2 There are no changes to benefit entitlements.
3 The Chief Executive Officer did not participate in the AO Incentive Plan in the financial year under review and, Steve Caunce who was CEO until February has waived his award. The percentage change in remuneration for bonus/AO Incentive Award cash element "average per employee" is calculated by looking at the average amount participants in the cash bonus scheme for FY18 received, compared to the cash element participants in the AO Incentive Scheme are expected to receive relating to FY19, in each case excluding Executive Directors. Variable remuneration for FY19 was more heavily weighted towards share awards than cash (66.6%:33.3%) where as in the prior year share awards and cash were evenly weighted (50%:50%).

Performance graph and pay table (Unaudited)
The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 25 February 2014 (the date on which the Company's shares were first conditionally traded) to 31 March 2019. This index was chosen as it represents a broad equity market index which includes companies of a broadly comparable size and complexity.

Total Shareholder Return (Rebased)



Source: Thomson Reuters Datastream

Table 2, overleaf, shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2010 to 31 March 2019. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years save for FY19. The annual bonus percentage shows the payout for each year as a percentage of the maximum (i.e. 150% of salary).

Table 1: Directors' Shareholdings

	Shares held beneficially[1] at 31 March 2018	Target shareholding guidelines (% of salary)[2]	Target shareholding achieved	PSP Options[3]	SAYE Options[4]
Geoff Cooper	128,573	N/A	N/A	N/A	N/A
John Roberts	109,504,019	200%	Yes	502,232	20,224
Mark Higgins	3,773	200%	No	1,526,786	20,224
Christopher Hopkinson	22,956,306	N/A	N/A	N/A	N/A
Brian McBride	52,628	N/A	N/A	N/A	N/A
Marisa Cassoni	52,628	N/A	N/A	N/A	N/A
Jacqueline de Rojas	NIL	N/A	N/A	N/A	N/A
Shaun McCabe	NIL	N/A	N/A	N/A	N/A
Luisa Delgado	NIL	N/A	N/A	N/A	N/A

1 Includes shares held by connected persons. Last year we reported the shares held by Mark Higgins and his connected persons was 27,701. Mark has ceased to be connected to a person holding 23,928 shares during the period under review.
2 Comprises shares held beneficially only (and excludes options).
3 None of these PSP options (which have performance conditions) have yet vested, but for John Roberts and Mark Higgins, options over 43,153 and 57,537 shares respectively, will vest in July 2019 and options over 459,079 and 612,106 respectively will lapse. Further share awards are expected to be granted to Mark Higgins in July 2019 as part of the AO Incentive Award FY19 grant – with a value of £343,400 at grant, which will be released in July 2022 subject to the attainment of the performance underpin and continued employment.
4 None of these SAYE options (which have no performance conditions) have vested.

Table 2: Total Remuneration of CEO

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Total remuneration (£'000)[1]	680	292	243	227	537	537	588	575	781	551
Annual bonus (% of maximum)	59%	18%	0%	0%	0%	0%	10%	10%	37.5%	–
AO Incentive Award (% of maximum)	–	–	–	–	–	–	–	–	–	50.5%
PSP vesting (% of maximum)	–	–	–	–	–	–	–	0%	0%	8.59%

1 The total remuneration for the financial years ended 31 March 2010 to 31 March 2016 represent amounts earned by John Roberts. The figure stated for the financial year ended 31 March 2017 (2016/2017) is the total remuneration that Steve Caunce would have earned for 2016/2017 had he been CEO for the full year (at the basic salary of £450,000 per annum). The total remuneration for the financial year ended 31 March 2018 (2017/2018) represents amounts earned by Steve Caunce. The figure stated for the financial year ended 31 March 2019 is the total remuneration that John Roberts would have earned for 2018/2019 had he been CEO for the full year at the basic salary of £450,000.

Relative importance of the spend on pay (Unaudited)
The table below shows the movement in spend on staff costs versus that in distributions to shareholders.

	2017/2018	2018/2019	% change
Staff costs[1]	£89.3m	£102.1m	14.3%
Distributions to shareholders	No distributions were made to shareholders in the year		

1 Includes base salaries, social security and pension, but excludes share-based payment charges.

External appointments
No fees were received by Executive Directors for external appointments during the year ended 31 March 2019.

Implementation of remuneration policy for 2019/2020
The Policy can be found on pages 79 to 85 of this Annual Report.

Salary
We have not increased the base salaries of our Executive Directors for the year ahead. They will next be eligible for a salary review in early 2020, with any changes effective from 1 April 2020. For comparison, the average salary increase provided to UK employees in the 2018 financial year was 3.4%.

The current salaries as at 1 April 2019 (and those as at 1 April 2018) are as follows:

Individual	Role	Base salary at 1 April 2019	Base salary at 1 April 2018	% increase
John Roberts	CEO	£450,000	£450,000*	0%
Mark Higgins	CFO	£340,000	£340,000	0%

* Reports the salary earned by the former CEO as at 1 April 2018.

Pension and other benefits
Executive Directors will continue to receive an employer's pension contribution (or a cash allowance in lieu of pension) at the rate of 12.75% of base salary.

Executives will also continue to receive benefits comprising a car allowance of £12,000 each, private family medical cover, gym membership and death in service life assurance, and the Company will continue to pay for Mark Higgins' private fuel.

AO Incentive Plan

AO Incentive Plan
In respect of FY20, the Executive Directors will have a maximum award opportunity of 300% of basic salary. Performance will be measured between 1 April 2019 and 31 March 2020 and against the measures disclosed below.

Subject to the achievement of the performance measures, one-third of the award will be paid in cash subject to approval of the audited accounts for FY20. The remaining two-thirds of the award will be granted in shares. These shares will vest after three years subject to the Committees' satisfaction that their value reflects the underlying performance of the business.

Performance conditions for the FY20 AO Incentive Plan Award
The performance conditions proposed for this year's award comprise Group Revenue and Group Adjusted EBITDA targets, a cash flow target and two strategic targets; customer NPS scores (across the Group) at high levels and successfully leveraging the AO eco-system, each with the weighting as set out below. The Committee believes these measures provide the appropriate balance, with revenue reflecting the Group's high growth strategy but with an EBITDA target to ensure the team are driving profitable growth. For the Group Revenue, Group Adjusted EBITDA and cash flow metrics, we have set targets having regard to the Company's budget for the year ahead. We deem the budget numbers to be commercially sensitive at this juncture but will disclose these retrospectively.

As can be seen on page 21, customers is a key pillar of our strategy and being able to leverage the eco-system are key drivers for creating long-term sustainable growth. NPS remains the key measure of customer satisfaction, therefore clearly linking to our strategy. We consider the target range set for NPS to also be commercially sensitive, however, the Committee has set this with reference to both the strong results in 2018/19 as well as the impact that expanding into new markets and product areas is likely to have on these scores.

Leveraging the eco-system at AO is core to the strategy which the business is putting in place for the coming years. It is key to the resilience and future cash generation of the group, again linking to long-term strategy. Throughout the year the Committee will monitor activities of Executive Directors and other participants in the AO Incentive Plan in this area. Details of any achievements which contribute to the vesting of this portion of the award will be provided in next year's report.

Metric	Weighting (% of award)
Group Revenue for FY20	40%
Group Adjusted EBITDA for FY20	30%
Cash flow	10%
NPS Scores	10%
Leverage of Eco-system	10%

Mindful of the Code requirements that Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes, we are proposing to enhance the existing discretion available to the Committee under the AO Incentive Plan rules, by giving further discretion to the Committee in the grant documentation for this year's awards.

All-employee share plans
The Company proposes to roll-out a new SAYE Scheme each year and all Executive Directors will be entitled to participate on the same basis as other employees.

Share ownership requirements
The required share ownership level for the Executive Directors for 2019/20 will be 200% of salary.

Following departure, departing Directors will typically maintain a material interest in shares. For good leavers, AO Incentive Plan awards deferred into shares will typically only be released at the end of the normal vesting period and subject to the attainment of performance underpin.

There are no share ownership requirements for the Non-Executive Directors.

Non-Executive Director fees
Certain changes to Non-Executive Director fees against the prior year have been agreed and accordingly, the fees payable per annum for 2019/20 are shown in the table below.

Non-Executive Director fees	2019/2020	2018/2019
Chairman fee covering all Board duties	£200,000	£165,000
Non-Executive Director basic fee	£55,000	£50,000
Supplementary fees to Non-Executive Directors covering additional Board duties		
Audit Committee Chairman fee	£10,000	£10,000
Remuneration Committee Chairman fee	£10,000	£10,000
Senior Independent Director fee	£10,000	£5,000

Details of Directors' service contracts and letters of appointment
Details of the service contracts and letters of appointment in place as at 31 March 2019 for Directors are shown in Table 3, overleaf.

Brian McBride, Marisa Cassoni and Chris Hopkinson agreed to an extension of the term of their appointments for one further year in February 2019, following expiry of the initial three-year terms which commenced around IPO and consecutive one-year extensions from such expiry. The extension of such appointment is subject to the terms of the letters of appointment in force.

However, as set out in the Corporate Governance report, we have since been notified that Brain McBride will not offer himself for re-election at the Company's AGM in July.

Remuneration Committee membership

The members of the Committee were for the year in question Brian McBride (Chairman until 31 January 2019), Luisa Delgado (a member following her appointment to the Board on 1 January 2019 and Chairperson of the Committee from 1 February 2019) Marisa Cassoni, and Jacqueline de Rojas. All current members of the Committee are deemed to be independent. Accordingly, the Committee continues to comply with the independence requirements set out in the Code.

During the year to 31 March 2019, there were three formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 66. The Executive Directors may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

Advisers to the Committee

Deloitte LLP provided advice during the year to 31 March 2019 in relation to incentive arrangements and the proposed remuneration policy for Executive Directors and the wider senior management population and was appointed by the Committee. Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code.

Table 3: Directors' Service Contracts and Letters of Appointment

Director and date of service contract or letter of appointment	Unexpired term	Notice period by Company (months)	Notice period by Director (months)	Date joined Group
Marisa Cassoni 31/01/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	05/02/2014
Geoff Cooper 01/07/2016	Initial term of three years from date of letter subject to notice	3	3	01/07/2016
Mark Higgins 31/05/2014	Continuous employment until terminated by either party	12	12	10/07/2011
Christopher Hopkinson 14/02/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	12/12/2005
Brian McBride 17/02/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	06/02/2014
John Roberts 14/02/2014	Continuous employment until terminated by either party	12	12	19/04/2000
Jacqueline de Rojas 23/11/2017	Initial term of three years from date of appointment	3	3	23/11/2017
Shaun McCabe 25/07/2018	Initial term of three years from date of appointment	3	3	25/07/2018
Luisa Delgado 01/01/2019	Initial term of three years from date of appointment	3	3	01/01/2019

Deloitte also provided certain tax advice during the year to the Group.

The Committee is committed to regularly reviewing the external adviser relationship and is comfortable that Deloitte's advice remains objective and independent.

For the year under review, Deloitte's total fees charged were £33,360 plus VAT.

Shareholder feedback (Unaudited)

At the 2018 AGM, the Policy Report and AO Incentive Plan were put to shareholders for a binding vote and the Annual Remuneration Report for the year ended 31 March 2018 was put to shareholders by way of an advisory vote, with votes cast as follows:

	Votes in favour		Votes against			Votes Withheld
	No. of shares	%	No. of shares	%	Total number of votes cast	No. of shares
To approve the Directors' Remuneration Report	393,724,289	99.97	105,140	0.03	393,829,429	4,077,005
To approve the Directors' Remuneration Policy	342,654,617	87.01	51,174,812	12.99	393,829,429	4,077,005
To approve the rules of the AO Incentive Plan	347,942,585	87.44	49,963,849	12.56	397,906,434	0

The Committee will continue to monitor developments in market trends and the best practice expectations of investors as part of the ongoing review of how the Policy is implemented. As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

Luisa Delgado
Chairman, Remuneration Committee
AO World Plc
3 June 2019

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements of AO World Plc (the "Company") and its subsidiaries (together the "Group") for the financial year to 31 March 2019.

Statutory Information

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated in the table below, and is incorporated into this Report by reference:

Statutory Information	Section	Page
Amendment of the Articles	Directors' Report	94
Appointment and replacement of Directors	Directors' Report	93
Board of Directors	Corporate Governance Statement	64 and 65
Change of control	Directors' Report	94
Community	Strategic Report; Corporate Social Responsibility	34
Directors' indemnities	Directors' Report	95
Directors' interests	Remuneration Report	90
Directors' responsibility statement	Directors' Report	96
Disclosure of information to Auditors	Directors' Report	96
Diversity policy	Strategic Report	32
Employee involvement	Strategic Report; Resources and Relationships	24 and 25
Employees with disabilities	Strategic Report; Resources and Relationships	32
Future developments of the business	Strategic Report	14 to 58
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Greenhouse gas emissions	Corporate Social Responsibility	36
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Results and dividends	Directors' Report	95
Political donations	Directors' Report	95
Post-balance sheet events	Directors' Report	95
Powers for the Company to issue or buy back its shares	Directors' Report	94
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Research and development activities	Directors' Report	95
Restrictions on transfer of securities	Directors' Report	94
Rights attaching to shares	Directors' Report	94
Risk management	Strategic Report; Note 4 to the consolidated financial statements	37 to 44 and 118
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Statement of corporate governance	Corporate Governance Statement	59 to 96
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Management Report

This Directors' Report, on pages 93 to 96, together with the Strategic Report on pages 14 to 58, form the Management Report for the purposes of DTR 4.1.5R.

The Strategic Report

The Strategic Report, which can be found on pages 14 to 58 sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year, strategic KPIs and a description of the principal risks and uncertainties, which is set out on pages 39 to 44.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Statement, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 59 to 92. The Corporate Governance Statement, the Audit Committee Report and the Nomination Committee Report form part of this Directors' Report and are incorporated into the Directors' Report by reference.

Appointment and replacement of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

Appointment of Directors: A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board (having regard to the recommendation of the Nomination Committee). A Director appointed by the Board holds office only until the next Annual General Meeting of the Company and is then eligible for reappointment.

The Directors may appoint one or more of their number to the office of CEO or to any other executive office of the Company, and any such appointment may be made for such term, at such remuneration and on such other conditions as the Directors think fit.

Retirement of Directors: Under the Articles, at every Annual General Meeting of the Company, all Directors who held office at the time of the two preceding AGMs and did not retire at either of them shall retire from office but may offer themselves for re-election and if the number of retiring Directors is less than one-third of Directors then additional Directors shall be required to retire. However, in accordance with the Code, all Directors will retire and be subject to re-election at the forthcoming AGM.

Removal of Directors by special resolution: The Company may by special resolution remove any Director before the expiration of his period of office.

Termination of a Director's appointment: A person ceases to be a Director if:

(i) that person ceases to be a Director by virtue of any provision of the Companies Act 2006 or is prohibited from being a Director by law;
(ii) a bankruptcy order is made against that person;
(iii) a composition is made with that person's creditors generally in satisfaction of that person's debts;
(iv) that person resigns or retires from office;
(v) in the case of a Director who holds any executive office, his appointment as such is terminated or expires and the Directors resolve that he should cease to be a Director;
(vi) that person is absent without permission of the Board from Board meetings for more than six consecutive months and the Directors resolve that he should cease to be a Director; or
(vii) a notice in writing is served upon him personally, or at his residential address provided to the Company for the purposes of section 165 of the Companies Act 2006, signed by all the other Directors stating that he shall cease to be a Director with immediate effect.

For further details of our Directors, please refer to pages 64 and 65.

Amendment of the Articles

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. No amendments are proposed to be made to the existing Articles of Association at the forthcoming Annual General Meeting.

Share capital and control

The Company's issued share capital comprises of ordinary shares of 0.25p each of which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2019, the issued share capital of the Company was £1,179,709, comprising 471,883,584 ordinary shares of 0.25p each.

During the year, the Company issued 13,095,104 ordinary shares of 0.25p each as part of the consideration for the acquisition of Mobile Phones Direct Limited. Further details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in Note 28 to the financial statements on page 129. All the information detailed in Note 28 on page 129 forms part of this Directors' Report and is incorporated into it by reference.

Details of employee share schemes are provided in Note 31 to the financial statements on pages 129 to 132.

At the Annual General Meeting of the Company to be held on 17 July 2019 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £786,472.64 (314,589,056 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 157,294,528 shares (representing approximately 33.3% of the Company's issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a rights issue.

Authority to purchase own shares

The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to a maximum of 47,188,358 of its own ordinary shares either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally.

Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends which have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable. However, following any grant of authority from shareholders, the Company may purchase or contract to purchase any of the shares on or off-market, subject to the Companies Act 2006 and the requirements of the Listing Rules.

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the AO Sharesave Scheme, the AO Performance Share Plan ("PSP"), the Employee Reward Plan ("ERP") or the AO Single Incentive Plan ("SIP") where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the Scheme rules.

Voting rights

Each ordinary share entitles the holder to vote at general meetings of the Company. Under the Articles, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. In accordance with best practice, we intend to conduct voting by way of poll at this year's AGM. The Articles provide a deadline for submission of proxy forms of not than less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No member shall be entitled to vote at any general meeting either in person or by proxy, in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid. Save as noted, there are no restrictions on voting rights nor any agreement that may result in such restrictions.

Restrictions on transfer of securities

There are no restrictions on the free transferability of the Company's shares save that the Directors may, in their absolute discretion, refuse to register the transfer of a share:

(1) in certificated form which is not fully paid provided that if the share is listed on the Official List of the UK Listing Authority such refusal does not prevent dealings in the shares from taking place on an open and proper basis; or
(2) in certificated form (whether fully paid or not) unless the instrument of transfer (a) is lodged, duly stamped, at the Office or at such other place as the Directors may appoint and (except in the case of a transfer by a financial institution where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (b) is in respect of only one class of share; and (c) is in favour of not more than four transferees; or
(3) in uncertificated form to a person who is to hold it thereafter in certificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer; or
(4) where restrictions are imposed by laws and regulations from time to time apply (for example insider trading laws).

In relation to awards/options under the PSP, ERP, SIP and the AO Sharesave Scheme, rights are not transferable (other than to a participant's personal representatives in the event of death).

The Directors are not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Change of control

Save in respect of a provision of the Company's share schemes which may cause options and awards granted to employees under such schemes to vest on takeover, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

Save in respect of the Company's share schemes and also the revolving credit facility agreement entered into with Lloyds Bank Plc and Barclays Bank Plc on 3 June 2016, as extended on 16 November 2017 with the addition of HSBC Bank plc as an additional lender, there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

2019 Annual General Meeting

The Annual General Meeting will be held at 8.00 am on 17 July 2019 at Baskerville House, Browncross Street, Manchester. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Interests in voting rights

At the date of this report, the Company had been notified in accordance with chapter 5 of the Financial Services Authority's Disclosure Guidance and Transparency Rules, or was aware of (to the best of its knowledge) the following significant interests:

Shareholder	Number of ordinary shares/voting rights notified or aware of	Percentage of voting rights over ordinary shares of 0.25p each
John Roberts*	108,797,671	23.06%
Camelot Capital Partners LLC	49,598,590	10.51%
Steve Caunce	45,705,815	9.69%
Odey Asset Management LLP (including through financial instruments)	38,988,649	8.26%
Ruane, Cunniff & Goldfarb Inc.	31,220,092	6.62%
The London & Amsterdam Trust Company Ltd	20,334,685	4.31%
Chris Hopkinson	22,447,536	4.76%
MassMutual Life Insurance Company	20,000,000	4.24%
N K Stoller	17,629,098	3.74%
First Pacific Advisors Inc	17,159,042	3.64%
Baillie Gifford & Co Ltd	16,939,016	3.59%
FMR LLC (including 1,167,632 through financial instruments)	16,235,306	3.44%
Julie Holroyd	14,568,397	3.09%

* Excludes 6,348 ordinary shares in the issued ordinary share capital of the Company held by Crystalcraft Limited which is connected to John Roberts.

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 108 to 142.

No dividend was paid by the Company during the year to 31 March 2019.

Post-balance sheet events

There have been no balance sheet events that either require adjustment to the financial statements or are important in the understanding of the Company's current position.

Research and development

Innovation, specifically in IT, is a critical element of AO's strategy and therefore to the future success of the Group. Accordingly, the majority of the Group's research and development expenditure is predominantly related to the Group's IT systems.

Indemnities and insurance

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. The Company also indemnifies the Directors under an indemnity, in the case of the Non-Executive Directors in their respective letters of appointment and in the case of the Executive Directors in a separate deed of indemnity. Such indemnities contain provisions that are permitted by the director liability provisions of the Companies Act and the Company's Articles.

Environmental

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on page 36 and forms part of this report by reference.

Political donations

During the year, no political donations were made.

External branches

As part of its strategy on international expansion, the Group established a branch in Germany on 18 July 2014 via its subsidiary AO Deutschland Limited, registered in Bergheim. Group companies have also been incorporated in the Netherlands and Belgium.

Financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies and exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk, are given on pages 132 to 136 in Note 34 to the consolidated financial statements.

Independent Auditor

The Company's Auditor, KPMG LLP have indicated their willingness to continue their role as the Company's Auditor. A resolution to reappoint KPMG LLP as Auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM.

Disclosure of information to Auditor

Each of the Directors has confirmed that:

(i) So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(ii) The Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departure disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Julie Finnemore
Company Secretary
For and on behalf of the Board of Directors
AO World Plc
3 June 2019

Whether through thousands of incremental changes, or inventing something brand new, the best way to predict the future is to invent it.

In this section

Opinions and conclusions arising from our audit

1. Our opinion is unmodified
We have audited the financial statements of AO World plc ("the Company") for the year ended 31 March 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Position, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 3.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 19 July 2016. The period of total uninterrupted engagement is for the 3 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£2.0m (2018: £2.0m) 0.2% (2018: 0.3%) of group total revenues	
Coverage	99% (2018: 99%) of group total revenues	
Key audit matters		**vs 2018**
Recurring risks	Product protection plans accrued income	⇔
	Volume rebates receivable	⇔
	Recoverability of Parent Company's investment in subsidiaries and debt due from group entities	⇔
	New: Network commissions accrued income	
Event driven	**New:** Fair value of intangibles on business combination	
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit	
Event driven	**New:** Going concern	

2. Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 43 (Principal Risks), page 45 (Viability Statement), page 74 (Audit Committee Report)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in Product protection plans accrued income, Network commissions accrued income, Fair value of separately identifiable intangible assets recognised as part the acquisition of Mobile Phones Direct, Volume rebates receivable and Recoverability of Parent Company's investment in subsidiaries and debtors due from group entities below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit- related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Sensitivity analysis:** When addressing going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty. — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Going concern, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under Product protection plans accrued income, Network commissions accrued income, Fair value of separately identifiable intangible assets recognised as part the acquisition of Mobile Phones Direct; Volume rebates receivable and Recoverability of Parent Company's investment in subsidiaries and debtors due from group entities and we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern *Refer to pages 45 (Directors Report), page 74 (Audit Committee report) and page 114 (Accounting Policy)*	**Unprecedented levels of uncertainty** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: — revenue and margin growth — a reduction in supplier days There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Forecast reviews:** We involved specialists in our review of forecasts prepared by management. We considered the level of available financial resources in the forecasts, we assessed the historical accuracy of forecasts, we obtained an understanding of key assumptions applied and considered sensitivities taking account of reasonably possible (but not unrealistic) adverse effects that could arise individually and collectively including a reduction in revenue growth based on external market data; a reduction in margin based on historic performance and a reduction to supplier days. — **Covenant compliance:** We reviewed Board minutes for evidence of the parent's covenant compliance throughout the year ending 31 March 2019 and we reviewed the calculations submitted to the banks for covenant compliance. — **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by verifying whether it is not contradictory to the findings of the procedures noted above. **Our results** — We found the going concern disclosure without any material uncertainty to be acceptable.

	The risk	Our response
Product protection plans accrued income £74.7 million accrued income; (2018: £61.6 million) *Refer to page 73 (Audit Committee Report), page 116 and 119 (Accounting Policy) and page 126 (Financial Disclosures).*	Accrued income is recognised based on the fair value of commissions due over the expected life of the plans. As this requires subjective estimates to be made, as well as the use of a complex model, there is a risk that the accrued income is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of £74.7 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 22 disclose the sensitivity estimated by the Group. **Data capture** Data used in the model used to calculate the fair value could be incorrect because of the complexities and manual nature involved in the data transfer from the third party into the database system and subsequently onwards into the model. **Calculation error** The model used to calculate the fair value is complex and so open to the possibility of arithmetical error. **Subjective estimate** Subjective inputs into the product protection plan accrued income calculation, such as the life of the plans, cancellation rates and future contractual margins based on forecast performance expected require judgement.	Our procedures included: — **Data comparisons:** With the assistance of our own data modelling specialists we performed reconciliations of the third party data to the database system which stores this data and onwards into the model. We agreed a sample of income from new plans, cancellations and renewals of plans to both bank statements and the database system. — **Methodology implementation:** With the assistance of our own data modelling specialists we assessed the appropriateness of the methodology behind the calculation. — **Historical comparisons:** Evaluating the historical accuracy of the model with reference to past data e.g. expected cash cumulative cash received. — **Benchmarking assumptions:** Assessing the directors' assumptions over the average life of the products against externally available market data. — **Our sector experience:** Challenging the assumptions made such as life of the plans, cancellation rates and expected margins based on our knowledge of the business and the group. — **Sensitivity analysis:** Performing sensitivity analysis on judgemental assumptions as described above. — **Assessing transparency:** Assessing the adequacy of the group's disclosures about the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions, reflecting the risks inherent in the valuation of accrued income. **Our results** — We found the product protection plans accrued income to be acceptable (2018: acceptable).

	The risk	Our response
Network commission accrued income £79.6 million accrued income *Refer to page 73 (Audit Committee Report), page 116 and 119 (Accounting Policy) and page 126 (Financial Disclosures)*	Network commissions receivable are based on the fair value of commissions due over the expected life of mobile phone network contracts. As this requires subjective estimates to be made there is a risk that the accrued income is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of £79.6 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 22 disclose the sensitivity estimated by the Group. **Data capture** Completeness and accuracy of data used in the models used to calculate the fair value could be incorrect because of the complexities and manual nature of the calculations. **Calculation error** The models used to calculate the fair value are complex and based on a variety of different tariffs with different networks and so open to the possibility of arithmetical error. **Subjective estimate** Subjective inputs into the network accrued income calculation, such as clawback of upfront revenue, stretch targets for bonuses, number of customer disconnections and monthly expected cash receipts are based on forecast performance expected and require judgement.	Our procedures included: — **Data comparisons:** We performed reconciliations of historic cash received to third party data. We agreed a sample of income from new connections and disconnections to both bank statements and the database system. — **Methodology implementation:** Assessed the methodology behind the calculation to verify whether it does the intended calculation. — **Historical comparisons:** Evaluating the historical accuracy of the model with reference to past data e.g. monthly cash receipts received per network against expected cash receipts. — **Our sector experience:** Challenging the assumptions made such as clawback of upfront revenue, stretch targets for bonuses, number of customer disconnections and monthly expected cash receipts based on our knowledge of the business and the group. — **Sensitivity analysis:** Performing sensitivity analysis on judgemental assumptions as described above. — **Assessing transparency:** Assessing the adequacy of the group's disclosures about the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions, reflecting the risks inherent in the valuation of accrued income. **Our results:** — We found the network commission's accrued income to be acceptable.

	The risk	Our response
Fair value of separately identifiable intangible assets recognised as part the acquisition of Mobile Phones Direct £14.8 million market related intangible; £0.4m customer related intangible; £0.7m technology related intangible *Refer to page 73 (Audit Committee Report), page 114, 116 and 119 (Accounting Policy) and page 137 (Financial Disclosures).*	On 17 December 2018 the Group acquired Mobile Phones Direct. Included within the fair value of net identifiable assets recognised on acquisition are separately identifiable intangible assets of £15.9m, the valuation of which involves significant judgements over certain assumptions such as future revenue and EBIT growth; organic and pay per click costs; source of connections; royalty relief rates and discount rates. This is considered to be a significant audit risk as it may affect the balance between non-amortisable and amortisable intangible assets.	Our procedures included: — **Methodology choice:** With the assistance of our valuation specialists, assessing the results of the valuation by checking that the valuation was in accordance with relevant accounting standards and acceptable valuation practice. — **Benchmarking assumptions:** With the assistance of our valuation specialists, challenging the key inputs used in the valuation, in particular, discount rates and royalty rates by comparing them to externally derived data and comparable transactions. — **Our sector experience:** Assessing whether the key assumptions used, in particular revenue and EBIT growth rate; organic and pay per click costs; and source of connections reflect our knowledge of the business and industry, including assessing the forecast growth, costs and connections against historic actual performance for the acquired business. — **Assessing transparency:** Assessing the appropriateness of the Group's disclosures in respect of the valuation of intangible assets recognised on acquisition. **Our results:** — We found the fair value of separately identifiable intangible assets recognised as part the acquisition of Mobile Phones Direct to be acceptable.
Volume rebates receivable £11.1 m volume rebates receivable; (2018: £14.5m) *Refer to page 73 (Audit Committee Report), page 115 and 119 (Accounting Policy) and page 126 (Financial Disclosures).*	**Subjective estimate** Volume rebates recognised are significant and the receivable outstanding at the year end represents an estimate for amounts based on forecasts in relation to factors such as future volumes. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of £11.1 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Data capture** The rebate calculations include supplier turnover and agreed contractual percentages which vary per supplier. Due to the manual nature of the calculations, the data used in the rebates calculation may be inaccurate.	Our procedures included: — **Control operation:** Testing the operating effectiveness of controls over supplier statement reconciliations including the controls over the monitoring and timely reconciliations of the supplier statements. — **Historical comparisons:** Evaluating the accuracy of the Group's product volume forecasting against actual out- turns. — **Reperformance:** Recalculating a sample of rebates based on agreed supplier turnover and the contractual percentages as stated in the contract. — **Tests of detail:** Agreeing a sample of the year end receivable back to post year end confirmatory evidence, including credit notes and supplier email confirmation. **Our results** — We found the volume rebates receivable to be acceptable (2018: acceptable).

	The risk	Our response
Parent: Recoverability of Parent Company's investment in subsidiaries and debtors due from group entities Investment in subsidiaries £82.3 million; (2018: £63.1m) *Refer to page 140 (Accounting Policy) and page 140 (financial disclosures).* Debt due from group entities £103.8 million; (2018: £73.7m) *Refer to page 116 (Accounting Policy) and page 142 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company's investment in subsidiaries and debtors due from group entities balance represents 43% (2018: 41%) and 54% (2018: 48%) respectively of the Company's total assets. The recoverability of these is not at high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, these are considered to be the areas that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail**: Assessing 100% of debtors due from group entities to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. — **Tests of detail:** Comparing the carrying amount of the investment with the subsidiaries draft balance sheet to identify whether net assets, being an approximation of the minimum recoverable amount, was in excess of the carrying amount and assessing whether the subsidiaries have historically been profit-making. — **Assessing subsidiary audits:** Considering the results of the audit work on those subsidiaries' profits and net assets. **Our results** — We found the Group's assessment of the recoverability of the Parent Company's investment in subsidiaries and debtors due from group entities balance to be acceptable (2018: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £2.0 million, determined with reference to a benchmark of group total revenues of £ 902.5 million, of which it represents 0.2% (2018: 0.3% of group total revenues).

We consider total revenues to be the most appropriate benchmark as it provides a more stable measure year on year than group loss or profit before tax. This reflects the growth stage of the business and management's focus on growing the brand and expanding into Europe.

Materiality for the parent company financial statements as a whole was set at £1.0 million, determined with reference to a benchmark of parent company total assets, of which it represents 0.5% (2018: 0.5% of parent company total assets).

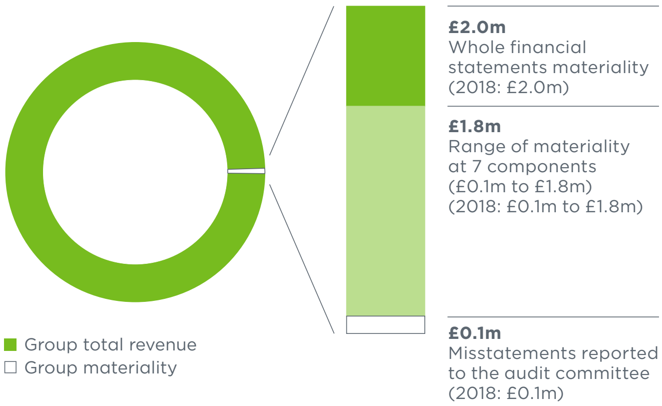
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 11 (2018: 10) reporting components, we subjected 7 (2018: 7) to full scope audits for group reporting purposes, all of which, including the audit of the parent company, were performed by the group audit team. We subjected 1 (2018: 1) reporting component to specific risk-focused audit procedures as it was not individually significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

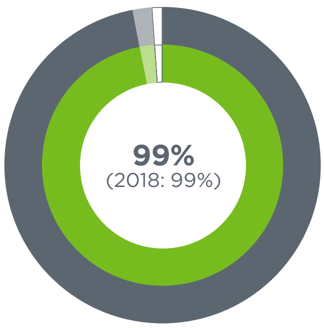
The components within the scope of our work accounted for 99% of group total revenues (2018: 99%), 100% of group total assets (2018: 98%) and 96% of group total profits and losses that made up the group loss before tax (2018: 97%).

Group total revenues
£902.5m (2018: £796.8m)

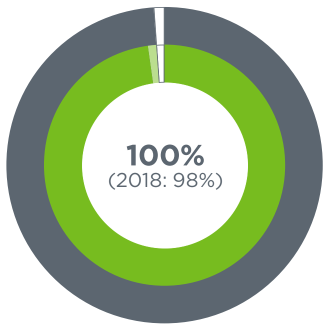
Group Materiality
£2.0 m (2018: £2.0m)



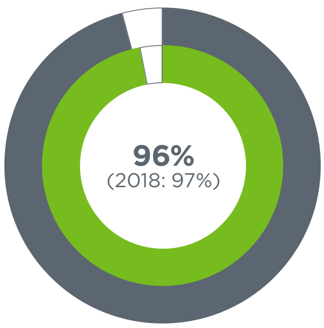
Group total revenues



Group total assets



Group total profits and losses that made up the group loss before tax



- Full scope for group audit purposes 2019
- Specified risk-focused audit procedures 2019
- Full scope for group audit purposes 2018
- Specified risk-focused audit procedures 2018
- Residual components

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

— revenue and margin growth
— a reduction in supplier days

4. We have nothing to report on going concern continued

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the directors' statement in Note 3 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
— the related statement under the Listing Rules set out on page 45 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;
— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the directors' confirmation within the statement of viability assessment on page 45 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
— the directors' explanation in the statement of viability assessment of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement of viability assessment. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
— certain disclosures of directors' remuneration specified by law are not made; or
— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 96, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: product protection plan legal status recognising the regulated nature of the plan and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mick Davies (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peters Square
Manchester
M2 3AE

Tuesday 4 June 2019

Consolidated income statement
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Continuing operations			
Revenue	5,6	**902.5**	796.8
Cost of sales	6	**(750.2)**	(655.0)
Gross profit		**152.3**	141.8
Administrative expenses	6,7	**(169.0)**	(159.8)
Other operating income	8	**1.5**	1.8
Operating loss	6,8	**(15.2)**	(16.2)
Finance income	11	**2.5**	4.8
Finance costs	12	**(6.2)**	(2.1)
Loss before tax		**(18.9)**	(13.5)
Tax credit	13	**1.9**	0.2
Loss for the year		**(17.0)**	(13.3)
Loss for the year attributable to:			
Owners of the parent company		**(17.5)**	(13.4)
Non-controlling interest	29	**0.5**	0.1
		(17.0)	(13.3)
Loss per share (pence)			
Basic loss per share	15	**(3.78)**	(2.93)
Diluted loss per share	15	**(3.78)**	(2.92)

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	2019 £m	2018 £m
Loss for the year	**(17.0)**	(13.3)
Items that may subsequently be recycled to income statement		
Exchange differences on translation of foreign operations	**2.4**	(1.0)
Total comprehensive loss for the year	**(14.6)**	(14.3)
Total comprehensive loss for the year attributable to:		
Owners of the parent company	**(15.1)**	(14.4)
Non-controlling interest	**0.5**	0.1
	(14.6)	(14.3)

Consolidated statement of financial position

As at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	16	**27.6**	13.5
Other intangible assets	17	**16.9**	1.2
Property, plant and equipment	18	**26.8**	28.0
Trade and other receivables	22	**79.4**	47.9
Derivative financial asset	34	**0.8**	2.2
Deferred tax asset	20	**3.6**	1.7
		155.0	94.5
Current assets			
Inventories	21	**76.3**	53.2
Trade and other receivables	22	**118.0**	54.8
Derivative financial asset	34	**–**	0.2
Corporation tax receivable		**0.6**	0.2
Cash and cash equivalents	23	**28.9**	56.0
		223.8	164.4
Total assets		**378.8**	258.9
Current liabilities			
Bank overdraft	23	**–**	(3.1)
Trade and other payables	24	**(230.1)**	(156.0)
Borrowings	25	**(12.2)**	(4.2)
Derivative financial liability	34	**(0.6)**	(0.4)
Provisions	27	**(8.3)**	–
		(251.3)	(163.7)
Net current (liabilities)/assets		**(27.5)**	0.7
Non-current liabilities			
Borrowings	25	**(25.7)**	(10.4)
Trade and other payables	24	**(7.0)**	–
Derivative financial liability	34	**(2.9)**	(3.4)
Deferred tax liability	20	**(2.7)**	–
Provisions	27	**(2.6)**	(1.8)
		(41.0)	(15.6)
Total liabilities		**(292.3)**	(179.3)
Net assets		**86.6**	79.6
Equity attributable to owners of the parent			
Share capital	28	**1.2**	1.1
Share premium account	28	**103.7**	103.7
Other reserves	30	**29.0**	5.3
Retained losses		**(46.4)**	(28.9)
Total		**87.5**	81.2
Non-controlling interest	29	**(0.9)**	(1.6)
Total equity		**86.6**	79.6

The financial statements of AO World Plc, registered number 05525751, on pages 108 to 142 were approved by the Board of Directors and authorised for issue on 3 June 2019. They were signed on its behalf by:

John Roberts
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Consolidated statement of changes in equity

As at 31 March 2019

			Other reserves								
	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Translation reserve £m	Other reserve £m	Retained losses £m	**Total £m**	Non-controlling interest £m	**Total £m**
Balance at 1 April 2017	1.1	55.7	4.4	0.5	3.8	(5.6)	(2.1)	(15.6)	**42.2**	(1.7)	**40.5**
(Loss)/profit for the year	–	–	–	–	–	–	–	(13.4)	**(13.4)**	0.1	**(13.3)**
Share-based payments charge net of tax	–	–	–	–	5.4	–	–	–	**5.4**	–	**5.4**
Foreign currency gains arising on consolidation	–	–	–	–	–	(1.0)	–	–	**(1.0)**	–	**(1.0)**
Issue of shares net of expenses	–	48.0	–	–	–	–	–	–	**48.0**	–	**48.0**
Movement between reserves (see Note 30)	–	–	–	–	(0.1)	–	–	0.1	**–**	–	**–**
Balance at 31 March 2018	1.1	103.7	4.4	0.5	9.1	(6.6)	(2.1)	(28.9)	**81.2**	(1.6)	**79.6**
(Loss)/profit for the year		–	–	–	–	–	–	(17.5)	**(17.5)**	0.5	**(17.0)**
Share-based payments charge net of tax	–	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Foreign currency gains arising on consolidation	–	–	–	–	–	2.4	–	–	**2.4**	–	**2.4**
Issue of shares net of expenses	–	–	17.8	–	–	–	–	–	**17.8**	–	**17.8**
Acquisition of non-controlling entity	–	–	–	–	–	–	(0.4)	–	**(0.4)**	0.3	**(0.1)**
Balance at 31 March 2019	**1.2**	**103.7**	**22.2**	**0.5**	**13.1**	**(4.2)**	**(2.5)**	**(46.4)**	**87.5**	**(0.9)**	**86.6**

Consolidated statement of cash flows
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Loss for the year		**(17.0)**	(13.3)
Adjustments for:			
Depreciation and amortisation		**7.5**	7.6
Finance income	11	**(2.5)**	(4.8)
Finance costs	12	**6.2**	2.1
Profit on disposal of property, plant and equipment		**–**	(0.1)
Taxation credit		**(1.9)**	(0.2)
Share-based payment charge	31	**4.0**	5.5
Increase in provisions		**0.1**	0.3
Operating cash flows before movement in working capital		**(3.6)**	(2.9)
Increase in inventories		**(16.3)**	(8.4)
Increase in trade and other receivables		**(10.2)**	(21.5)
(Decrease)/increase in trade and other payables		**(5.2)**	17.1
Total movement in working capital		**(31.7)**	(12.8)
Taxation received		**0.8**	0.3
Cash used in operating activities		**(34.5)**	(15.4)
Cash flows from investing activities			
Acquisition of subsidiary (net of cash acquired)		**(5.9)**	–
Acquisition of shares in non-controlling entity		**(0.4)**	–
Interest received	11	**–**	–
Proceeds from sale of property, plant and equipment		**–**	0.1
Acquisition of property, plant and equipment		**(4.5)**	(4.8)
Acquisition of intangible assets		**(0.5)**	(0.5)
Cash used in investing activities		**(11.2)**	(5.2)
Cash flows from financing activities			
Movement in bank overdraft		**(3.1)**	3.1
Proceeds from new borrowings		**27.0**	1.1
Interest paid	12	**(0.9)**	(1.0)
Repayments of borrowings		**(1.2)**	(0.9)
Payment of finance lease liabilities		**(3.1)**	(3.2)
Proceeds from share issue		**–**	50.0
Costs in relation to share issue		**–**	(1.9)
Net cash from financing activities		**18.6**	47.2
Net (decrease)/increase in cash		**(27.0)**	26.6
Cash and cash equivalents at beginning of year		**56.0**	29.4
Exchange losses on cash and cash equivalents		**(0.1)**	–
Cash and cash equivalents at end of year	23	**28.9**	56.0

1. Authorisation of financial statements and statement of compliance with IFRSs
AO World Plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2019, and as such comply with Article 4 of the EU IAS regulation.

The address of the registered office is given on page 143. The nature of the Group's operations and its principal activities are set out in Note 19 and in the Strategic Report on pages 14 to 58.

These financial statements are presented in pounds sterling (£m) because that is the currency of the primary economic environment in which the Group operates.

2. Adoption of new and revised standards
The accounting policies set out in Note 3 have been applied in preparing these financial statements.

The Group has adopted the following standards, amendments and interpretations in these financial statements:
— IFRS 9 Financial Instruments
— IFRS 15 Revenue from Contract with Customers

IFRS 9 Financial Instruments
The Company has adopted IFRS 9 with a date of initial application of 1 April 2018. The standard's three main projects have been classification and measurement, impairment and hedge accounting. Management performed an assessment of the impact of the standard and any potential changes due to impairment.

IFRS 9 requires a loss allowance for the expected credit losses to be recognised on receivables and other types of debt instruments. In order to be able to recognise the expected credit losses and not merely the "incurred" credit losses as was the requirement under IAS 39, AO World has made an assessment of the impairment of trade receivables and other receivables. This review has not resulted in any material expected credit loss provision.

IFRS 15 Revenue
The Company has applied IFRS 15 using the modified retrospective approach. Having assessed the criteria in IFRS 15, management have concluded that there is no financial impact from the adoption of the new standard as compared to the past accounting under IAS 18 hence there are no changes in the financial statements. Additional disclosure requirements regarding the disaggregation of revenue is shown in the Note 5 to the financial statements. The Group's accounting policy reflecting the assessment of revenue under IFRS 15 is included in Note 3.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 28	Long term interests in associates and joint ventures
Amendments to IFRSs 3, 11, IAS 12 and IAS 23	Approval improvements to IFRS's 2015-217 cycle

Management are reviewing the impact of the above on the Group's financial statements. The main changes which will have a significant impact are:

IFRS 16 Leases
IFRS 16 "Leases" replaces the current IAS 17 "Leases" and its associated interpretative guidance. The new standard is effective as of 1 January 2019 and therefore will first be applicable for the Group's year ending 31 March 2020. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the lessee. The new standard removes the classification of leases as operating leases or finance leases, for lessees, as is required by IAS 17 and, instead introduces a single accounting model. According to the new model leases result in the lessee obtaining the right to use an asset during the estimated lease term and, if lease payments are made over time, also obtaining financing. The adoption of IFRS 16 will have no impact on the running of the business and importantly no impact on the overall cash flows of the business.

AO World's long-term operating leases will be recognized as non-current assets and financial liabilities in the consolidated statement of financial position. Instead of operating lease expenses, AO World will recognise depreciation and interest expenses in the consolidated statement of comprehensive income. Lease payments will affect cash flow from operating activities (e.g. interest, low value asset leases and short-term leases), and cash flow from financing activities (repayment of the lease liability) in the cash flow statement.

AO World will apply the new standard using the fully retrospective approach, which means that comparative figures will be restated. The cumulative effect of applying IFRS 16 will be recognised at 1 April 2018 in the financial statements for the year ending 31 March 2020. The lease liabilities attributable to leases which have previously been classified as operating leases under IAS 17 will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at the inception date of the relevant lease. AO World will also recognise a right-of-use asset at an amount equal to the depreciated cost as if the asset had been a right of use asset from inception of the lease. The difference between the impact of the liability and the right of use asset will be adjusted in opening equity at 1 April 2018.

AO World will apply the practical expedients to recognise payments associated with short-term leases and leases of low value assets, as an expense in the income statement. AO World will not apply IFRS 16 to intangible assets. Non-lease components will be expensed and not accounted for as part of the right-of-use-asset or the lease liability. For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability under IFRS 16 at 1 April 2018 will be the carrying amount of the lease asset and lease liability accounted for under IAS 17 immediately before transition to IFRS 16.

Based on the work undertaken by management, it is anticipated that a right of use asset in the range of £60m to £65m and a lease liability in the range of £70m to £75m will be recognised as at 1 April 2018 with the difference being accounted for in equity.

The numbers will be finalised ahead of the Group's interim financial statements.

2. Adoption of new and revised standards continued

AO World has identified lease contracts relating to warehouses, out-bases, corporate offices and vehicles. In determining the balances above, the main judgements made are related to determining the lease terms, whether a contract is or contains a lease, the appropriate discount rate and the impact of any sub-leases. Regarding lease terms, in certain cases the lease contracts in the group include options for AO World to either extend or to terminate the contract. When determining the lease term, AO World considers all facts and circumstances that creates an economic incentive to exercise an extension option, or not to exercise a termination option.

The difference between AO World's future minimum leasing fees under operating lease agreements in accordance with IAS 17 and the lease liability which will be recognised as of 1 April 2018, in accordance with IFRS 16, is mainly related to the impact of discounting, estimated lease term extension periods and reassessments of whether a contract is or contains a lease.

3. Significant accounting policies

Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

Subsidiary undertakings acquired during the period are recorded under the acquisition method of accounting. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree. Acquisition related costs are recognised in the consolidated income statement as incurred.

All intercompany balances and transactions have been eliminated in full.

The present-access method is used to value AO Recycling non-controlling interest. Under this method the non-controlling interest continues to be recognised because the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests, with the debit entry to "other" equity. Any non-controlling interest acquired on acquisition of a subsidiary is recognised at the proportionate share of the acquired net assets. Subsequent to acquisition, the carrying amount of non-controlling interest equals the amount of those interests at initial recognition plus the non-controlling share of changes in equity since acquisition. Total comprehensive income is attributed to a non-controlling interest even if this results in the non-controlling interest having a deficit balance.

A list of all the subsidiaries of the Group is included in Note 19 of the Group financial statements. All apply accounting policies which are consistent with those of the rest of the Group.

Going concern

Notwithstanding net current liabilities of £27.5m as at 31 March 2019, a loss for the year then ended of £17.0m and operating cash outflows for the year of £34.5m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its existing cash balances and the Revolving Credit Facility (RCF) of £56.1m (which is net of letters of credit and payment guarantees of £3.9m) to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Revenue recognition

IFRS 15, "Revenue from Contracts with Customers" is a principle-based model of recognising revenue from customer contracts. It has a five-step model that requires revenue to be recognised when control over goods and services are transferred to the customer. The following paragraphs (which align with the disaggregation of revenue shown in Note 5) describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition.

Product revenue

The group operates through three main websites – AO.com, AO.de and AO.nl – as well as operating sites for third parties. All are for the sale of electrical products. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product and takes delivery or in the case of certain business to business transactions on credit terms.

It is the Group's policy to sell its products to the end customer with a right of return within 100 days. Therefore, a returns liability (included in accruals) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned.

Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Service revenue

In addition to the sale of the product, the Group offers the delivery, collection, connection and disposal of new and old appliances. Revenue from these services is recognised at the point of sale in line with when the product is delivered.

Commission revenue

The Group receives commission revenue from two principal sources:

a) Product protection plans
Commission receivable for sales of product protection plans for which the Group acts as an agent (on the basis that the plan is a contract between the customer and Domestic & General and the Group has no ongoing obligations following the sale of such plans) are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised on the basis that the Group has fulfilled its obligations to the customer at the point of sale. The fair value calculation takes into consideration the length of the plan and the historical rate of customer attrition and is discounted (see Note 22).

The Group has significant accumulated data to estimate the revenue at the time of the transaction and on this basis it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of these assumptions are reassessed at each reporting date.

b) Network commissions
The Group – through Mobile Phones Direct Limited – operates under contracts with a number of Mobile Network Operators ("MNO"). Over the life of these contracts the service provided by the Company to the MNO is the procurement of connections to the MNO's network. The individual consumer enters into a contract

with the MNO for the MNO to supply the ongoing airtime over that contract period. The Company earns a commission for the service provided to each MNO ("network commission").

The method of measuring the fair value of the revenue and associated receivables in the month of connection is to estimate all future cash flows that will be received from the network and discount these based on their timing of receipt. The determined commission is recognised in full in the month of connection of the consumer to the MNO as this is the point at which the Company has completed the service obligation relating to the consumer connection.

Commission revenue is only recognised to the extent it can be reliably measured for each consumer. Payment terms with the MNO are based on a mix of cash received upon connection and future payments as the MNO receives monthly instalments from end consumers over the life of the consumer contract. The gross commission receivable in any month is settled for certain MNOs over the life of consumer contracts. Payments on account received in advance from the MNO are recognised within creditors as payments on account, there is no right of offset against the accrued income, and these are repaid in line with the MNO contract.

A key judgement associated with this recognition is the unit of account used in recognition. The Company has determined that the number and value of consumers provided to the MNO in any given month represents the best output measure. The level of network commission earned is based on a share of the monthly payments made by the consumer to the MNO. The total consideration receivable is determined by both fixed (monthly line rental) and variable elements (being out of bundle and out of contract revenue share).

The Company recognise all of the fixed revenue share expected over a consumers contract when a consumer is connected to the MNO. This gives rise to accrued income being recognised, which is collected over the consumer's contract.

Estimating in advance variable elements of revenue is subject to significant judgements and is dependent on consumer behaviour after the point of recognition. The Company does consider that the amount of out of bundle and out of contract revenue can be measured reliably in advance for certain MNOs, and therefore these revenues are recognised when a consumer is connected to the MNO. For certain MNOs, where they are not considered reliably measurable they are recognised in the month received.

Logistics revenue
The Group provides third party logistics services to a number of customers. Revenue from logistics is recognised on completion of the delivery.

Recycling revenue
Revenue from the Recycling of used electrical products is recognised at the point of sale to the end user.

Volume and marketing related expenditure
At the year end the Group is required to estimate supplier income receivable due from annual agreements for volume rebates, some of which span across the year-end date. Estimates are required where firm confirmation of some amounts due are received after the year end. Where estimates are required these are calculated based on historical data, adjusted for expected changes in future purchases from suppliers, and reviewed in line with current supplier contracts.

Commercial income can be recognised as volume rebates or as strategic marketing investment funding. Volume rebates are recognised in the income statement as a reduction in cost of sales in line with the recognition of the sale of a product. Strategic marketing investment funding is recognised in one of two ways:

- in advertising costs or cost of sales to offset directly attributable costs incurred by the Group on behalf of the suppliers; and
- the remainder of funding is recognised in revenue (in product revenue)

Finance income and costs
Finance income is recognised in the consolidated income statement in the period to which it relates using the effective interest rate method.

Finance income comprises of:

- Interest receivable which is recognised in the consolidated income statement as it accrues using the effective interest method.
- Income arising from the unwinding of the accrued income in relation to product protection plans and network commissions in excess of their previously recognised fair value.
- Movement in the valuation of the put and call options.
- Foreign exchange gains arising on financing (principally intra-Group loans).

Finance costs are recognised in the consolidated income statement in the period to which they occur.

Finance costs comprise of:

- Movement in the valuation of the put and call options.
- Finance costs incurred on finance leases are recognised in profit or loss using the effective interest method.
- Financing costs of raising debt.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

Impairment of tangible and intangible assets
At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Goodwill is not amortised but is reviewed for impairment annually, or more frequently where there is an indication that the goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs expected to benefit from synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Significant accounting policies continued

Goodwill impairment review

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in Note 16. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Directors draw upon experience as well as external resources in making these judgements.

Intangible assets

Goodwill represents the excess of the total consideration transferred for an acquired entity, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is stated at cost. Goodwill is allocated to CGUs and is not amortised but is tested annually for impairment.

Other intangible assets are stated at cost less accumulated amortisation. Amortisation is charged to the consolidated income statement in administrative expenses on the basis stated below over the estimated useful lives of each asset. The estimated useful lives are as follows:

Asset Class	Amortisation method and rate
Domain names	5 years straight-line
Computer software	3 to 5 years straight-line
Marketing related assets	10 years straight-line
Customer lists	5 years straight-line

Amortisation methods, useful lives and residual values are reviewed at each statement of financial position date.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and assets in the course of construction) less their residual values over their useful lives on the following bases:

Asset Class	Depreciation method and rate
Property alterations	10 years straight-line or over the life of the lease to which the assets relate
Fixtures, fittings and plant and machinery	15% reducing balance or 3 to 10 years straight-line
Motor vehicles	2 to 10 years straight-line
Computer equipment	3 to 5 years straight-line
Office equipment	15% reducing balance or 3 to 5 years straight-line
Leasehold property	Depreciated on a straight-line basis over the life of the lease
Freehold property	25 years straight-line

Freehold land and assets in the course of construction are not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct purchase cost net of rebates. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of selling and distribution. Net realisable value includes, where necessary, provisions for slow-moving and damaged inventory.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities

Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables, and call and put options.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. Further information is included within the revenue recognition policy and Note 4, critical accounting judgements and key sources of estimation uncertainty. A provision for bad and doubtful debt is made when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Bad debts are written off when identified.

For other receivables arising from commission for sales of product protection plans and network commissions, measurement is at fair value. This is based on the Group having a contractual right to receive cash (in the form of commission following the sale of a plan) and a financial asset is recognised in accordance with IAS 32 Financial Instruments Presentation. Any gain or loss on re-measurement of fair value is recognised immediately in the consolidated income statement within revenue.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Trade and other payables

Trade and other payables are recognised initially at fair value subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial liabilities and equity components

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRSs. Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Call and put option

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited) are based upon an independent valuation at the year-end using the Monte Carlo model. These are applied to the Company only accounts and, for the call option only, in the consolidated accounts.

For consolidation purposes, the Group uses the gross liability method as per IAS 32 for valuing the put option which equates to an estimate of the amount payable over the life of the option based on discounted future cash flows.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. The estimated cash outflow is discounted to net present value.

Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, each determined at the inception of the lease and depreciated over their estimated useful lives or the lease term if shorter. Finance charges are charged to income over the year of the lease in proportion to the capital element outstanding.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the fixed term of the lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread straight-line over the lease term.

Sublease rent is credited to the income statement in other income.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment for items of income or expense that are taxable or deductible in other years or that are never taxable or deductible.

Research and development credits are accounted for in accordance with IAS 12. The credit is recognised once a reasonable estimate of the amount can be made.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and its tax base at reporting period. The following temporary differences are not provided for: the initial recognition of goodwill; and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (other than in a business combination) to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax liability is recognised at the expected future tax rate on the value of intangible assets with finite lives which are acquired through business combinations representing the tax effect of the amortisation of these assets in the future. These liabilities will decrease in line with the amortisation of the related assets with the deferred tax credits recognised in the Statement of Comprehensive Income in accordance with IAS 12.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

The Group contributes to a defined contribution pension scheme, for employees who have enrolled in the scheme. A defined contribution scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the years during which services are rendered by employees.

Share-based payments

The cost of share-based payment transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value is generally determined by an external valuer using an appropriate pricing model (see Note 32). In valuing equity-settled transactions, no account is taken of any service and performance (vesting) conditions, other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

3. Significant accounting policies continued

No expense is recognised for awards that do not ultimately vest, except for awards under the AO Sharesave Scheme which are cancelled. These awards are treated as if they had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value of the settled award being treated as an expense in the income statement.

If a service period is reduced, the modified vesting period is used when applying the requirements of the modified grant-date method. In the period of change, the cumulative amount to be recognised at the reporting date is calculated on the new vesting conditions.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service and non-market vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of cancelled options in the AO Sharesave Scheme, be treated as vesting as described above.

The movement in cumulative expense since the previous statement of financial position date is recognised in the consolidated income statement with a corresponding entry in equity.

Foreign currency translation

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the presentational currency of the Group and its consolidated financial statements.

The trading results and cash flows of overseas subsidiaries are translated at the average monthly exchange rates during the period. The Statement of Financial Position of each overseas subsidiary is translated at year-end exchange rates with the exception of equity balances which are translated at historic rates. The resulting exchange differences are recognised in a separate translation reserve within equity and are reported in other comprehensive income.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates of exchange at the reporting date. Exchange differences on monetary items are recognised in the income statement.

Intra-Group loans are translated at the year-end exchange rate with the resulting exchange differences recognised within interest.

Non statutory measures

One of the Group's key performance indicators is Adjusted EBITDA and each segment is measured by the Chief Operating Decision Maker on this basis. When reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison and it is a performance criteria for the purposes of both the Executive Management's annual bonus and certain LTIP awards (along with other measures including revenue). Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Principles ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures.

Adjusted EBITDA is calculated by adding back those material items of income and expenditure where because of the nature and expected infrequency of events giving rise them, merit separate presentation to allow shareholders a better understanding of the financial performance in the period.

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on disposal. EBITDA is adjusted for one-off items that do not reflect the underlying trading of the business. Adjustments are:

- LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA. AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.
- In the prior year, Europe set-up costs were costs incurred in connection with our European expansion strategy and our continuing research into other countries along with strategic post "go-live" activity in AO.de and AO.nl.
- During the current and previous year and following the changes in Chief Executive Officer, the Group has undertaken a restructure of its senior leadership team. The cost of this restructure, including the impact of the acceleration of certain share option charges (2018 only), is considered to be one-off in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.
- During the current year, the Company acquired Mobile Phones Direct Limited. Fees in relation to the transaction were significant in nature and considered by management to outside of the normal trading activity of the Group and have therefore been added back in arriving at Adjusted EBITDA.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. During the current financial year, the performance of this contract has been reassessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and whilst management will explore routes to renegotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. As a consequence due to its size, timing and the onerous nature of the contract, management consider this to be exceptional and have added back the cost in the current year in arriving at Adjusted EBITDA.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements and estimation. These relate to the revenue recognition and recoverability of product protection plan income and network commission income, commercial income receivable and the recognition of and recoverability of intangible fixed assets acquired on a business contribution, all of which contain estimates, as set out below.

Estimates

Revenue recognition and recoverability of income from product protection plans

Revenue recognised in respect of commissions receivable over the lifetime of the plan for the sale of product protection plans is recognised at fair value, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold, which management estimate reliably based upon a number of assumptions, including the length of the policies, the commission rates receivable and the historical rate of customer attrition. Reliance on historical data assumes that current and future experience will follow past trends. The Directors consider that the quantity and quality of data available provides an appropriate basis for making these estimates.

For plans sold prior to 1 December 2016, the commission rates receivable are assumed at pre-determined rates. For plans sold post that date, base assumed commissions will continue to be earned on pre-determined rates but overall commissions now include a variable element based on the future overall performance of the scheme.

Commission receivable also depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer default within the contract period, expected levels of customer spend, and customer behaviour beyond the initial contract period. Such assumptions are based on extensive historical evidence, and provision is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain. Changes in estimates recognised as an increase or decrease to revenue may be made, where for example more reliable information is available, and any such changes are required to be recognised in the income statement. The commission receivable balance as at 31 March 2019 was £74.7m (2018: £61.6m). The discount rate used to unwind the commission receivable is 4.7% (2018: 4.6%).

Revenue recognition and recoverability of income in relation to network commissions

For certain transactions with the Mobile Network Operators ("MNOs"), commission receivable on mobile phone connections depends on customer behaviour after the point of sale.

The Company considers the following areas with regards to revenue recognition:

- Revenue share percentage – the percentage of the consumer's spend (to MNOs) to which MPD is entitled;
- Minimum contract period – the length of contract entered into by the consumer;
- Consumer default rate – rate at which the consumers disconnect from MNOs;
- Out of Bundle spend – additional spend by the consumer measured as a percentage of total spend (which currently MPD considers can be measured reliably in advance for certain MNOs); and
- Spend beyond the initial contract period – period of time the consumer remains connected to the MNOs after the initial contract term (which currently MPD consider can be measured reliably in advance for certain MNOs).

Under certain arrangements with the MNOs, the commission receivable for the monthly consumer connections to the MNOs depends on consumer behaviour after the point of connection. The fair value of the revenue and associated receivable in the month of connection is estimated based on all future cash flows that will be received from the MNO and these are discounted based on the timing of receipt. Subsequently, network commission receivables are measured at the present value of the estimated future cash flows. This also takes into account likely clawback of commission by the MNOs for which provision is made.

The Directors consider that the quality and quantity of the data available from the MNOs is appropriate for making the estimates.

The commission receivable balance as at 31 March 2019 was £79.6m (2018: £nil). The discount rate used to unwind the commission receivable is 2.75% (2018: 2.75%).

Commercial income receivable

Commercial income comes from two major sources: volume rebates and strategic marketing investment funding.

Volume rebates are deducted from cost of sales in line with the sale of the product to which the rebate is attributable. Calculation of the volume rebate for the final month of the financial year includes judgements for expected rebates receivable. Volume rebates receivable at 31 March 2019 are £11.1m (2018: £14.5m). At 31 May 2019, the balance outstanding was £3.0m.

Strategic marketing investment funding is recognised in revenue, cost of sales and marketing expenses. Where incremental third-party costs are incurred as a result of marketing support, revenue is offset against these costs. The remainder of the strategic marketing fund is recognised in revenue as it represents part of the ordinary activities of the business.

Calculation of the revenue recognised requires judgements to be made which include forecasting expected total marketing funding and third-party expected marketing spend. At 31 March 2019, £2.8m remains as an outstanding receivable (2018: £1.1m). At 31 May 2019, the outstanding balance was £1.6m.

Determination of the fair value of assets and liabilities on acquisition

Included within critical accounting estimates in the current year is the valuation of the intangible's assets recognised as part of the acquisition of Mobile Phones Direct Limited (due to the inherent uncertainty involved in forecasting and discounting future cash flows). The estimates used in the valuation of the intangible assets are considered to have a significant risk of causing a material misstatement, specifically; the estimation of future cash flows, the useful economic life of the asset, the use of the most appropriate valuation methodology and the selection of a suitable discount rate.

5. Revenue

Following the introduction of IFRS 15, the Group is required to disaggregate its revenue to show the main drivers of its revenue streams The table below shows the Group's revenue by main geographical area and major business area. All revenue is accounted for at a point in time as the Group has satisfied its performance obligations on the sale of its products/services.

Major product/services lines

(£m)	**31 March 2019**			31 March 2018		
	UK	**Europe**	**Total**	UK	Europe	Total
Product revenue	**628.4**	**151.1**	**779.5**	600.2	114.4	714.7
Service revenue	**30.1**	**1.6**	**31.8**	26.2	1.4	27.6
Commission revenue	**61.2**	**0.3**	**61.5**	26.6	0.1	26.7
Third party logistics	**15.3**	**0.0**	**15.3**	16.0	0.0	16.0
Recycling	**14.3**	**0.1**	**14.5**	11.7	0.1	11.8
Total revenue	**749.3**	**153.2**	**902.5**	680.8	116.0	796.8

Details of the revenue in each category are set out in the accounting policies note on page 114.

6. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances and ancillary services to customers in the UK and online retailing of domestic appliances and ancillary services to customers in Europe (excluding the UK).

Operating segments are determined by the internal reporting regularly provided to the Group's Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

Transactions between segments are undertaken on an arm's-length basis using appropriate transfer pricing policies.

a. Income statement

The following is an analysis of the Group's revenue and results by reportable segments.

Year ended (£m)	31 March 2019			31 March 2018		
	UK	**Europe**	**Total**	UK	Europe	Total
Total revenue	**749.3**	**153.2**	**902.5**	680.8	116.0	796.8
Cost of sales	(594.5)	(155.7)	(750.2)	(536.2)	(118.8)	(655.0)
Gross profit/(loss)	**154.9**	**(2.6)**	**152.3**	144.6	(2.8)	141.8
Administrative expenses	(141.0)	(27.9)	(169.0)	(134.3)	(25.5)	(159.8)
Other operating income	1.0	0.5	1.5	1.3	0.5	1.8
Operating profit/(loss)	**14.9**	**(30.1)**	**(15.2)**	11.6	(27.8)	(16.2)
Finance income	2.5	–	2.5	4.0	0.8	4.8
Finance costs	(3.4)	(2.8)	(6.2)	(2.0)	(0.1)	(2.1)
Profit/(loss) before tax	**14.0**	**(32.9)**	**(18.9)**	13.6	(27.1)	(13.5)
Tax credit	1.5	0.4	1.9	0.4	(0.2)	0.2
Profit/(loss) after tax	**15.5**	**(32.5)**	**(17.0)**	14.0	(27.3)	(13.3)

The Group uses alternative performance measures which are not defined within IFRS, as well as IFRS measures. One of these key measures is Adjusted EBITDA which is defined in Note 3.

The reconciliation of statutory operating profit/(loss) to adjusted EBITDA is as follows.

£m	31 March 2019			31 March 2018		
	UK	**Europe**	**Total**	UK	Europe	Total
Operating profit/(loss)	**14.9**	**(30.1)**	**(15.2)**	11.6	(27.8)	(16.2)
Depreciation	5.3	1.1	6.4	4.9	1.7	6.6
Amortisation	1.1	–	1.1	0.9	0.1	1.0
Profit on disposal of non-current assets	–	–	–	–	(0.1)	(0.1)
EBITDA	**21.3**	**(29.0)**	**(7.7)**	17.4	(26.1)	(8.7)
Share-based payments charge attributable to exceptional LTIP awards	2.3	–	2.3	3.5	–	3.5
Europe set-up costs	–	–	–	0.3	–	0.3
Fees incurred on acquisition of subsidiary	2.6	–	2.6	–	–	–
Onerous contract costs	–	1.2	1.2	–	–	–
Restructuring costs	1.2	–	1.2	1.4	0.1	1.5
Adjusted EBITDA	**27.4**	**(27.8)**	**(0.4)**	22.6	(26.0)	(3.4)

b. Geographical analysis

Revenue by location is the same as that shown in section (a) by reportable segment. Information on non-current assets by geographical location is shown in section (c).

c. Other information

2019 (£m)	Additions: Intangible assets	PP&E	Depreciation	Amortisation	Profit on disposal
UK	0.5	5.1	5.3	1.1	0.0
Europe	0.0	0.1	1.1	0.0	0.0
	0.5	5.2	6.4	1.1	0.0

In addition, intangible and tangible fixed assets of £16.5m were acquired with Mobile Phones Direct Limited.

2018 (£m)	Additions: Intangible assets	PP&E	Depreciation	Amortisation	Profit on disposal
UK	0.5	4.2	4.9	0.9	–
Europe	–	0.8	1.7	0.1	(0.1)
	0.5	5.0	6.6	1.0	(0.1)

Due to the nature of its activities, the Group is not reliant on any individual major customer or group of customers.

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly Board presentation, therefore no measure of segmental assets or liabilities is disclosed in this note.

7. Administrative expenses

	2019 £m	2018 £m
Marketing and advertising expenses	28.2	33.2
Warehousing expenses	38.9	34.2
Other administrative expenses	101.9	92.4
	169.0	159.8

8. Operating loss for the year

Operating loss for the year has been arrived at after charging/(crediting):

	2019 £m	2018 £m
Depreciation of:		
Owned assets	3.8	3.9
Assets held under finance leases	2.5	2.7
Amortisation	1.1	1.0
Operating lease expenses of:		
Motor vehicles	5.9	6.4
Other assets	7.4	9.3
Profit on disposal of property, plant and equipment	–	(0.1)
Cost of inventories	665.6	566.6
Staff costs (see Note 10)	107.4	97.2
Other operating income from short-term sublets	(1.5)	(1.8)
Acquisition costs	2.6	–
Executive restructuring costs	1.1	1.5
Onerous contract costs	1.2	–

9. Auditor's remuneration

The analysis of the Auditor's remuneration is as follows:

	2019 £m	2018 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group		
– the audit of the Company's subsidiaries	0.3	0.2
Total audit fees	0.4	0.3
Total Auditor's remuneration	0.4	0.3

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 71. No services were provided on a contingent fee basis.

Non-audit fees of £40,000 were also incurred in relation to the review of the interim financial statements (2018: £30,000) and, in the year ended 31 March 2019, of £30,000 in relation to work performed on the acquisition of Mobile Phones Direct Limited.

10. Staff numbers and costs

The average monthly number of employees (including Directors) was:

	2019 Number	2018 Number
Sales, marketing and distribution	3,110	2,764
Directors (Executive and Non-Executive)	9	7
	3,119	2,771

Their aggregate remuneration comprised:

	2019 £m	2018 £m
Wages and salaries	89.5	79.6
Social security costs	8.9	8.1
Contributions to defined contribution plans (see Note 33)	4.9	3.7
Share-based payment charge (see Note 31)	4.0	5.5
Social security contributions related to share awards	0.2	0.4
	107.4	97.2

11. Finance income

	2019 £m	2018 £m
Foreign exchange gains on intra-Group loans	–	1.1
Movement in valuation of put and call option	0.2	1.8
Unwind of discounting on long-term receivables	2.3	1.9
	2.5	4.8

12. Finance costs

	2019 £m	2018 £m
Interest on obligations under finance leases	0.7	0.5
Foreign exchange losses on intra-Group loans	3.0	–
Unwind of developing on long term payables	0.2	–
Movement in valuation of put and call option	1.8	1.1
Other finance costs	0.5	0.5
	6.2	2.1

13. Tax

	2019 £m	2018 £m
Corporation tax:		
Current year	0.2	–
Adjustments in respect of prior years	–	(0.2)
	0.2	(0.2)
Deferred tax (see Note 20)		
Current year	(1.8)	(0.3)
Adjustments in relation to prior years	(0.3)	0.3
Total tax credit	(1.9)	(0.2)

The expected corporation tax credit for the year is calculated at the UK corporation tax rate of 19% (2018: 19%) on the loss before tax for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions in which the Group operates.

The UK rate of corporation tax, currently 19%, will reduce to 17% on 1 April 2020 under provisions contained in Finance Act 2016. The Group has recognised deferred tax in relation to UK companies at either 19% or 17% depending on the period in which the deferred tax asset or liability is expected to reverse.

The credit for the year can be reconciled to the loss in the statement of comprehensive income as follows:

Year ended 31 March	2019 £m	2018 £m
Loss before tax on continuing operations	(18.9)	(13.5)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(3.6)	(2.6)
Ineligible expenses	1.6	0.3
R & D Tax Credit	0.2	–
Difference in overseas and UK tax rates	(0.3)	(0.3)
Movement in unrecognised tax	–	2.0
Impact of difference in current and deferred tax rates	0.1	–
Income not taxable	–	(0.5)
Share-based payments	0.4	0.8
Prior period adjustments	(0.3)	0.1
Tax credit for the year	(1.9)	(0.2)

14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2019 (2018: £nil).

15. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	2019 £m	2018 £m
Loss for the purposes of basic and diluted earnings per share being loss attributable to owners of the parent company	(17.5)	(13.4)
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	463,153,515	458,788,480
Potentially dilutive shares options	6,447,240	1,885,206
Weighted average number of diluted ordinary shares	469,600,755	460,673,686
Loss per share (pence per share)		
Basic loss per share	(3.78)	(2.93)
Diluted loss per share	(3.78)	(2.92)

As the potentially dilutive shares do not result in a reduction a loss per share, the diluted loss per share has been restricted to the basic loss per share.

The basic loss per share is affected by foreign exchange losses/(gains) arising from intra-Group funding arrangements therefore an adjusted basic loss per share has been calculated below excluding this impact. The foreign exchange loss/(gain) has arisen as a result of the significant movement in the exchange rate between sterling and the euro in the period.

Adjusted loss per share

Year ended 31 March	**2019 £m**	2018 £m
Loss		
Loss attributable to owners of the parent company	**(17.5)**	(13.4)
Foreign exchange loss/(gain) on intra-Group loans	**3.0**	(1.1)
Adjusted loss attributable to owners of the parent company	**(14.5)**	(14.5)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	**463,153,515**	458,788,480
Potentially dilutive shares options	**6,447,240**	1,885,206
Diluted weighted average number of shares	**469,600,755**	460,673,686
Loss per share (in pence)		
Basic loss per share	**(3.78)**	(2.93)
Diluted loss per share	**(3.78)**	(2.92)
Adjusted basic loss per share	**(3.13)**	(3.16)

16. Goodwill

	£m
Carrying value at 31 March 2017	**13.5**
Additions	–
Carrying value at 31 March 2018	**13.5**
Additions (see Note 36)	14.1
Carrying value at 31 March 2019	**27.6**

Historical goodwill relates to purchase of Expert Logistics Limited, the purchase by DRL Holdings Limited (now AO World Plc) of DRL Limited (now AO Retail Limited) and the acquisition of AO Recycling Limited (formerly The Recycling Group Limited).

The movement in the year represents the residual goodwill on the acquisition of Mobile Phones Direct Limited (now AO Mobile Limited) by AO Limited (see Note 36).

Impairment of goodwill
At 31 March 2019, goodwill acquired through UK business combinations (excluding Mobile Phones Direct Limited) was allocated to the UK cash-generating unit "CGU" which is also the UK operating segment.

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The Group performed its annual impairment test as at 31 March 2019. The recoverable amount of the CGU has been determined based on the value in use calculations. The Group prepares cash flow forecasts derived from the most recent approved financial budget and financial plan, for three years and extrapolates cash flows for the following years, up until year five, based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the market. The final year cash flow is used to calculate a terminal value.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. In arriving at the appropriate discount rate to use, we adjust the CGU's post-tax weighted average cost of capital to reflect the impact of risks and tax effects specific to the cash flows. The weighted average pre-tax discount rate we used was approximately 9.1% (2018: 10.8%).

The key assumptions, which take account of historic trends, upon which management have based their cash flow projections are sales growth rates, selling prices and product margin.

In addition, the Group has assessed the goodwill of £14.1m arising on the acquisition of Mobile Phones Direct Limited in December 2018. This was performed based on value in use calculations in same way as for the UK business but using a weighted average cost of capital appropriate for MPD as a standalone business of 14%.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

17. Other intangible assets

	Domain names £m	Software £m	Marketing related assets £m	Customer lists £m	Total £m
Cost					
At 1 April 2017	1.4	2.0	–	–	3.4
Additions	–	0.4	–	–	0.4
At 31 March 2018	1.4	2.4	–	–	3.8
Acquired with subsidiary (see Note 36)	–	1.1	14.8	0.4	16.3
Additions	–	0.5	–	–	0.5
At 31 March 2019	1.4	4.0	14.8	0.4	20.6
Amortisation					
At 1 April 2017	0.5	1.1	–	–	1.6
Charge for the year	0.5	0.5	–	–	1.0
At 31 March 2018	1.0	1.6	–	–	2.6
Charge for the year	0.1	0.5	0.5	0.0	1.1
At 31 March 2019	1.1	2.1	0.5	0.0	3.7
Carrying amount At 31 March 2019	0.3	1.9	14.3	0.4	16.9
At 31 March 2018	0.4	0.8	–	–	1.2
At 31 March 2017	0.9	0.9	–	–	1.8

Amortisation is charged to Administrative costs in the consolidated income statement.

Intangible assets acquired with subsidiary represent marketing related, customer related and technology related assets recognised on the acquisition of Mobile Phones Direct Limited.

18. Property, plant and equipment

	Land and buildings £m	Assets in the course of construction £m	Property alterations £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Computer and office equipment £m	Total £m
Cost							
At 1 April 2017	3.1	–	10.2	11.0	10.2	6.9	41.4
Additions	0.1	–	2.4	0.9	1.1	0.6	5.1
Disposals	–	–	–	–	(0.3)	(0.1)	(0.4)
Exchange differences	0.1	–	–	–	–	–	0.1
At 31 March 2018	3.3	–	12.6	11.9	11.0	7.4	46.2
Additions	(0.1)	0.8	1.1	1.3	0.8	1.3	5.2
Acquired with subsidiary (see Note 36)	–	–	0.2	–	–	–	0.2
Disposals	–	–	–	–	(0.3)	(0.1)	(0.4)
Exchange differences	(0.1)	–	–	–	–	–	(0.1)
At 31 March 2019	3.1	0.8	13.8	13.2	11.5	8.7	51.0
Accumulated depreciation							
At 1 April 2017	0.2	–	2.8	2.6	2.0	4.4	12.0
Charge for the year	0.2	–	1.0	1.3	2.7	1.4	6.6
Disposals	–	–	–	–	(0.3)	–	(0.3)
Exchange differences	–	–	–	–	(0.1)	–	(0.1)
At 31 March 2018	0.4	–	3.8	3.9	4.3	5.8	18.2
Charge for the year	0.1	–	1.4	0.6	2.6	1.6	6.4
Disposals	–	–	–	–	(0.3)	(0.1)	(0.4)
At 31 March 2019	0.5	–	5.2	4.5	6.6	7.3	24.2
Carrying amount at 31 March 2019	2.5	0.8	8.5	8.7	4.9	1.4	26.8
At 31 March 2018	2.9	–	8.8	8.0	6.7	1.6	28.0
At 31 March 2017	2.9	–	7.4	8.4	8.2	2.4	29.3

At 31 March 2019, the net carrying amount of finance leased plant and machinery was £8.7m (2018: £10.9m). The leased equipment secures lease obligations (see Note 26).

19. Subsidiaries

The Group consists of the parent Company, AO World Plc, incorporated in the UK and a number of subsidiaries held directly/indirectly by AO World Plc.

The table below shows details of all subsidiaries of AO World Plc as at 31 March 2019.

Name of subsidiary	Principal place of business	Class of shares held	Proportion of ownership interests and voting rights held by AO World Plc	Principal activity
AO Retail Limited	United Kingdom	Ordinary	100%**	Retail
Expert Logistics Limited	United Kingdom	Ordinary	100%**	Logistics and transport
Worry Free Limited	United Kingdom	Ordinary	100%	Dormant
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Limited	United Kingdom	Ordinary	100%	Dormant
AO Deutschland Limited	Germany	Ordinary	100%	Retail
AO Limited	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99%*	Dormant
AO.NL BV	Netherlands	Ordinary	100%	Retail
AO Logistics (Netherlands) BV	Netherlands	Ordinary	100%	Logistics and transport
AO Recycling Limited	United Kingdom	Ordinary	67.2%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	60%	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	60%	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
Mobile Phones Direct Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100%**	Retail
BERE Limited	Jersey	Ordinary and redeemable preference	100%	Investment company

All companies within the Group are registered at the same address disclosed on page 143 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

BERE Ltd	AO.NL BV	AO Logistics (Netherlands) BV	AO.BE SA	Elekdirect Limited
44 Esplanade St Helier Jersey JE4 9WG	Nijverheidsweg 33 Utrecht The Netherlands	Nijverheidsweg 33 Utrecht The Netherlands	Naamloze Vennootschap Esplanade Heysel 1 Bus 94 1020 Brussels	Unit G/G 14-16 Gilnow Mill Industrial Estate Spa Road Bolton BL1 4SF

* 0.01% of the investment in AO.BE SA is owned by AO Deutschland Limited.

** Indirectly owned through AO Limited.

20. Deferred tax

The following is the asset recognised by the Group and movements thereon during the current and prior reporting year.

	Share options £m	Accelerated depreciation £m	Short-term timing difference £m	Intangible Fixed Assets £m	Losses and unused tax relief £m	Total £m
At 1 April 2018	**0.8**	**0.7**	**0.3**	**–**	**–**	**1.8**
Credit to income statement	0.2	(0.1)	(0.1)	–	–	–
Credit to reserves	(0.1)	–	–	–	–	(0.1)
At 31 March 2018	**0.9**	**0.6**	**0.2**	**–**	**–**	**1.7**
Acquired with subsidiary (see Note 36)	–	–	–	(2.7)	–	(2.7)
Credit to income statement	0.4	0.2	0.1	–	1.4	2.1
Debit to reserves	(0.2)	–	–	–	–	(0.2)
At 31 March 2019	1.2	0.8	0.3	(2.7)	1.4	0.9

The above are disclosed as follows in the statement of financial position:

Deferred tax asset	3.6
Deferred tax liabilities	(2.7)
Net deferred tax	0.9

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Group has an unrecognised deferred tax asset of £5.4m (2018: £5.1m) in respect of unused losses carried forward.

21. Inventories

	2019 £m	2018 £m
Finished goods	**76.3**	53.2

Included within inventories are stock provisions of £1.1m (2018: £0.8m).

22. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**12.9**	8.7
Other receivables:		
– Accrued income	**155.4**	61.9
– Prepayments and other	**29.2**	32.2
	197.5	102.8

The trade and other receivables are classified as:

	2019 £m	2018 £m
Non-current assets – Accrued income	**79.4**	47.9
Current assets	**118.0**	54.8
	197.5	102.7

Accrued income

The reconciliation of opening and closing balances for accrued income is shown below:

	2019 £m	2018 £m
Balance brought forward	**61.9**	51.4
Acquisition of subsidiary	**81.3**	–
Commission earned, cash received and revisions to estimates	**10.6**	8.8
Unwind of discounting on long-term receivables	**2.3**	1.9
Other accrued income (see note below)	**(0.7)**	(0.2)
Balance carried forward	**155.4**	61.9

Accrued income principally represents the expected future commission receivable in respect of product protection plans and mobile phone connections. As set out in Note 4, the Group recognises revenue in relation to these plans and connections when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold or connections made.

Protection plans
To calculate the fair value of the revenue and hence the accrued income for product protection plans, the Group uses historical empirical data accumulated over 12 years based on 1.7m plans sold to date of which 0.7m plans are active.

The fair value calculation for product protection plans takes into consideration the following level three unobservable data:
- length of individual plans with a range of c.7–16 years included in the calculation;
- historical rate of customer attrition; and
- contractually agreed margins based on actual historical margins earned and an estimate of the future profitability of the scheme.

Given the wide range of attrition rates and margins applicable to the plans, the data relating to these areas has not been quantified above.

Expected future commission payments in respect of product protection plans are discounted at 4.7% (2018: 4.6%).

There has been no change to the fair valuation methodology adopted in the year ended 31 March 2019.

Sensitivity analysis has been conducted to assess the effect on the accrued income balance:

Sensitivity	Impact on Accrued Income £m
Cancellation rate increases by 5%	(3.1)
Cancellation rate decreases by 5%	3.1
Margin decreases by 5%	(3.0)
Margin increases by 5%	3.0

A sensitivity on plan life has not been included as it is considered to be covered by the changes in cancellation rates above.

Network commissions
The fair value calculation for mobile phone commission takes into consideration the following level three unobservable data:
- length of individual connections including estimates in relation to the period out-of-contract;
- historical rates of customer disconnection; and
- contractually agreed margins with the MNOs based on actual historical margins.

Expected future commissions are discounted at 2.75% due the relative short time period under which they unwind.

Reasonable sensitivities (a 5% increase/decrease) to customer spend including the potential impact of early disconnection could increase/decrease accrued income on network commission by £4m.

Other accrued income relates to revenue from third parties not invoiced at 31 March 2019 of £1.1m (2018: £0.3m).

Prepayments and other
At 31 March 2019, there is £13.9m (2018: £15.6m) included in prepayments and other in relation to commercial income.

At 31 May 2019, the balance outstanding was £4.6m (2018: £4.6m).

23. Net (debt)/funds

	2019 £m	2018 £m
Cash and cash equivalents	**28.9**	56.0
Bank overdraft	**–**	(3.1)
Borrowings – Repayable within one year	**(12.2)**	(4.2)
Borrowings – Repayable after one year	**(25.7)**	(10.4)
Net (debt)/funds	**(9.0)**	38.3

Movement in financial liabilities in the year was as follows:

	Bank loans £m	Finance lease liabilities £m
Balance at 1 April 2018	**4.6**	**10.0**
Changes from financing cash flows		
Proceeds from loans	27.0	–
Repayment of borrowings	(1.2)	–
Payment of interest	(0.2)	(0.5)
Repayment of finance lease liabilities	–	(3.1)
Total changes from financing cash flows	**25.6**	**(3.6)**
Other changes		
New finance leases	–	0.7
Interest expense	0.2	0.5
Total other changes	**0.2**	**1.2**
Balance at 31 March 2019	**30.4**	**7.6**

	Bank loans £m	Finance lease liabilities £m
Balance at 1 April 2017	**4.3**	**13.1**
Changes from financing cash flows		
Proceeds from loans	1.1	–
Repayment of borrowings	(0.9)	–
Repayment of finance lease liabilities	–	(3.2)
Total changes from financing cash flows	**0.2**	**(3.2)**
Other changes		
New finance leases	–	0.1
Exchange difference	0.1	
Total other changes	**0.1**	**0.1**
Balance at 31 March 2018	**4.6**	**10.0**

At 31 March 2019, AO Limited, a direct subsidiary of AO World Plc, had undrawn amounts on its Revolving Credit Facility of £56.1m (2018: £58.6m). The total facility is £60m. The amount drawn at the year-end was in relation to letters of credit and payment guarantees. The Revolving Credit Facility expires in June 2021.

During the year, AO Limited entered into a term loan agreement under which it borrowed £24m to partly fund the acquisition of Mobile Phones Direct Limited. This is repayable in quarterly instalments starting on 1 April 2019 with a final repayment date in June 2021 in line with the Revolving Credit Facility noted above.

In addition, AO Recycling Limited entered into a term loan to part fund the capital expenditure required for the development of its new Plastics Plant. The loan is repayable in September 2019 which and is to be funded by the conversion of the loan into a finance lease for the completed plant.

24. Trade and other payables

	2019 £m	2018 £m
Trade payables	**142.2**	118.4
Other payables:		
– Accruals	**22.5**	20.7
– Payments on account	**49.9**	–
– Deferred income	**8.2**	6.9
– Other	**14.3**	10.0
	237.1	156.0

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 58 days (2018: 56 days).

The trade and other payables are classified as:

	2019 £m	2018 £m
Current liabilities	**230.1**	156.0
Non-current liabilities – Payments on account	**7.0**	–
	237.1	156.0

25. Borrowings

	2019 £m	2018 £m
Secured borrowing at amortised cost		
Bank loans	**30.4**	4.6
Finance lease liabilities (see Note 26)	**7.6**	10.0
Total borrowings	**38.0**	14.6
Amount due for settlement within 12 months	**12.2**	4.2
Amount due for settlement after 12 months	**25.7**	10.4
Total borrowings	**38.0**	14.6

Finance leases relate primarily to plant and machinery and motor vehicles.

The Group's bank loans mature between November 2019 and June 2021 and have interest rates ranging from 1.75% to 4.6%.

26. Obligations under finance leases

	Minimum lease payments	
	2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	**3.0**	3.4
In the second to fifth years inclusive	**4.9**	7.3
	7.9	10.7

	Present value of minimum lease payments	
	2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	**2.8**	3.0
In the second to fifth years inclusive	**4.8**	7.0
	7.6	10.0

27. Provisions

	2019 £m	2018 £m
Provisions	**11.0**	1.8

Provisions are classified as:

	2019 £m	2018 £m
Non-current liabilities	**8.3**	1.8
Current liabilities	**2.6**	–
	11.0	1.8

	Dilapidations provision £m	Cashback provision £m	Clawback provision £m	Total £m
At 1 April 2018	1.8	–	–	1.8
Utilised	–	–	–	–
Acquired with subsidiary	0.1	6.3	2.6	9.0
Provisions created/(utilised) in the year	0.2	(0.2)	0.2	0.2
At 31 March 2019	**2.2**	**6.1**	**2.8**	**11.0**

The dilapidations provision is created for operating leases where the Group is liable to return the assets to their original state at the end of the lease. The provision will be utilised as leased assets expire.

The clawback provision is in respect of potential clawback of commissions by the MNOs based on historic disconnection rates. The cashback provision is in respect of cash back schemes operated by Mobile Phones Direct and are based on historic redemption rates. Payments are expected to be made up to 23 months from the year end against these provisions.

28. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m
At 1 April 2018	458.8	1.1	103.7
Share Issue	13.1	0.1	–
At 31 March 2019	**471.9**	**1.2**	**103.7**

On 17 December 2018, the Company issued 13,095,104 ordinary shares in the Company to the vendors of Mobile Phones Direct Limited. The shares were issued at a premium of £1.359 per share to arrive at the fair value of the share consideration paid to the owners of Mobile Phones Direct Limited (see Note 36). In accordance with Section 612 of the Companies Act 2006, the premium has been taken to merger reserve (see Note 30).

29. Non-controlling interest

	2019 £m	2018 £m
Balance at 31 March 2018	**1.6**	1.7
Acquired in the year	**(0.3)**	–
Share of profit for the year	**(0.5)**	(0.1)
Balance at 31 March 2019	**0.9**	1.6

During the year, AO Group acquired a further 7.2% of the share capital of AO Recycling Limited for £0.4m.

The non-controlling interest now relates to 32.8% of the share capital of AO Recycling Limited (formerly known as The Recycling Group Limited) not currently owned by the AO Group.

At 31 March 2019, AO Recycling Limited had non-current assets of £8.4m (2018: £6.8m), net current liabilities of £8.6m (2018: £7.7m) and non-current liabilities of £2.6m (2018: £3.3m). During the year, AO Recycling Limited contributed £13.8m (2018: £10.8m) and £2.0m (2018: £1.5m loss) to the Group's revenue and Adjusted EBITDA respectively. Net cash inflow was £2.7m (2018: £0.4m inflow).

If the stake in AO Recycling Limited had remained at 60%, the share of profits attributable to the Group would have reduced by £0.1m.

30. Reserves

The analysis of movements in reserves is shown in the statement of changes in equity. Details of the amounts included in other reserves (excluding share-based payment reserve and translation reserve) are set out below.

The merger reserve at 1 April 2018 arose on the purchase of DRL Limited (now AO Retail Limited) in the year ended 31 March 2008. As set out in Note 28, the movement in the current year relates to the premium on shares issued by the Company in relation to the acquisition of the whole of the issued share capital of Mobile Phones Direct Limited.

The capital redemption reserve arose as a result of the redemption of ordinary and preference shares in the year ended 31 March 2012 and 2014 respectively.

The other reserve arose on the acquisition of AO Recycling Limited and relates to the difference between the gross and fair valuation of the put option. The movement in the current year reflects the impact of the acquisition of the first tranche of options (see Note 29).

31. Share-based payments

Performance Share Plan

The table below summarises the amounts recognised in the income statement during the year.

	2019 £m	2018 £m
2016 LTIP	**0.2**	0.4
ERP	**2.1**	4.1
2017 LTIP	**0.5**	0.4
2018 SIP	**0.5**	–
Sharesave scheme	**0.7**	0.6
Total share scheme charge	**4.0**	5.5
Employer's NI on scheme charges	**0.2**	0.5
	4.2	6.0

The table below shows the share-based payment charge in relation to exceptional LTIP charges (included in the charge above).

	2019 £m	2018 £m
ERP	**2.1**	4.1
Employer's NI on exceptional ERP	**0.2**	0.4
Exceptional LTIP awards	**2.3**	4.5

The details regarding each of the schemes is detailed below.

2016 LTIP Awards

One-third of the 2016 LTIP Award is based on Total Shareholder Return (TSR) performance condition based on ranking of the Company's TSR during the performance period in comparison to the TSR of companies in the FTSE All Share Retail Index (Comparator group or Peer group) over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Company's TSR percentile ranking against Comparator Group
0%	Below Median
25%	Median
100%	Upper Quartile

One-third of the awards are subject to a Group Adjusted EBITDA performance condition over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Group Adjusted EBITDA for the financial year ending 31 March 2019
0%	<£23m
25%	£23m
62.5%	£29m
100%	£35m+

The final third of the awards are subject to a Sales performance condition which is linked to the growth in sales of the Group over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Sales growth over the three-year performance period
0%	Below 50%
25%	50%
62.5%	85%
100%	120%+

The awards vest on a straight-line basis between each threshold in all cases.

31. Share-based payments continued

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the 2016 LTIP Awards.

	2019 No. of options	**2019 WAEP(£)***	2018 No. of options	2018 WAEP(£)*
Outstanding at the beginning of the year	**2,615,647**	**–**	3,009,888	–
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(613,244)**	**–**	(394,241)	–
Outstanding at the end of the year	**2,002,403**	**–**	2,615,647	–

* Weighted average exercise price.

The fair value of the share options granted under the 2016 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2018 and 31 March 2019.

Risk-free rate	0.21%
Expected volatility	52.2%
Expected dividend yield	N/A
Option life	3 years

The share options granted under the 2016 LTIP Award which are dependent on Group Adjusted EBITDA and Sales performance have a fair value equal to the share price at grant date of £1.48.

The weighted average fair value of options granted was £1.04. For the shares outstanding at 31 March 2019, the remaining average contractual life is 0.3 years.

The performance period for measuring the potential awards under the scheme ended on 31 March 2019 and, subject to approval by the Remuneration Committee and approval of the financial statements by the Board. it is anticipated that 852,474 share options will vest in July 2019.

2017 LTIP Awards

One-third of the 2017 LTIP Award is based on Total Shareholder Return (TSR) performance condition based on ranking of the Company's TSR during the performance period in comparison to the TSR of companies in the FTSE All Share General Retailers Index (Comparator group or Peer group) over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Company's TSR percentile ranking against comparator group
0%	Below Median
25%	Median
100%	Upper Quartile

One-third of the awards are subject to a Group Adjusted EBITDA performance condition over the performance period

Percentage of shares subject to vesting (straight-line vesting between each point)	Group Adjusted EBITDA for the financial year ending 31 March 2020
0%	<£15.3m
25%	£15.3m
62.5%	£21.9m
100%	£28.5m+

The final third of the awards are subject to a Sales performance condition which is linked to the growth in sales of the Group over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Sales growth over the three-year performance period
0%	<£921.3m
25%	£921.3
62.5%	969.8m
100%	£1081.3m+

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the 2017 LTIP Awards.

	2019 No. of options	**2019 WAEP(£)***	2018 No. of options	2018 WAEP(£)*
Outstanding at the beginning of the year	**3,119,992**	**–**	–	–
Granted during the year	**–**	**–**	3,699,450	–
Forfeited during the year	**(919,093)**	**–**	(579,458)	–
Outstanding at the end of the year	**2,200,899**	**–**	3,119,992	–

* Weighted average exercise price.

The fair value of the share options granted under the 2017 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2018 and 31 March 2019.

Risk-free rate	0.30%
Expected volatility	47.9%
Expected dividend yield	N/A
Option life	3 years

The share options granted under the 2017 LTIP Award which are dependent on Group Adjusted EBITDA and Sales performance have a fair value equal to the share price at grant date of £1.03.

The weighted average fair value of options granted was £0.96. For the shares outstanding at 31 March 2019, the remaining average contractual life is 1.3 years.

There were no awards exercisable as at 31 March 2019.

In addition, following the acquisition of Mobile Phones Direct Limited ("MPD"), certain employees were invited to join a share scheme based on the performance of MPD. The number of share options granted was 772,058 at a fair value of £1.27 per share. The share options are based on achieving set targets of revenue, EBITDA and cash flow over the period to 31 March 2021 with a vesting date of 17 December 2021.

Employee Reward Plan (ERP)
In 2016 the Group made conditional awards of nil-cost options to certain members of senior management and Directors.

The Awards are based on one performance condition which requires that the Company's Sales growth over the performance period is greater than 10% per annum compound.

The fair value was determined to be the share price at grant date of £1.48.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the ERP.

	2019 No. of options	**2019 WAEP(£)***	2018 No. of options	2018 WAEP(£)*
Outstanding at the beginning of the year	**5,894,445**	**–**	6,344,445	–
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	(450,000)	–
Outstanding at the end of the year	**5,894,445**	**–**	5,894,445	–

The weighted average fair value of options granted was £1.48. For the shares outstanding at 31 March 2019, the remaining average contractual life is 0.3 years.

As with the LTIP 16, the performance period for assessing the number of options which will vest under this scheme ended on 31 March 2019, and as a result, subject to approval by the Remuneration Committee and approval of the financial statements by the Board, it is anticipated that 3,994,444 share options will vest in July 2019.

In the previous year, as part of the executive restructure set out in Note 3, a number of executives left the business. These employees had their service conditions waived in relation to the ERP scheme. The acceleration of the vesting period represented a modification that is beneficial to an employee and therefore the modified grant date method was applied. The fair value of the replacement award is equal to that of the original award due to the share price on cessation being used for both and therefore no incremental cost is required to be reported under IFRS 2. The acceleration of the service period however resulted in an additional charge of £1.4m in the prior year.

Single Incentive Plan 2018 (SIP)
On 19 July 2018, the Company adopted the AO 2018 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below) as well as the continuing employment of the individuals. The bonus and number of conditional share awards will initially be calculated based on the performance criteria for the year ending 31 March 2019. The vesting date for the conditional shares is July 2022.

The fair value was determined to be the share price at grant date of £1.01.

40% of the awards are subject to a Group Revenue performance condition for the year ended 31 March 2019 as shown below:

Group Revenue for the Performance Period	Extent to which Performance Condition satisfied
Below £860.7 million	0%
£860.7 million (Threshold)	25%
£906 million (Target)	62.50%
£951.3 million or higher (Stretch)	100%

30% of the awards are subject to a Group EBITDA performance condition for the year ended 31 March 2019 as shown below:

Group Adjusted EBITDA for the Performance Period	Extent to which Performance Condition satisfied
Below -£7.52 million	0%
-£7.52 million (Threshold)	25%
-£0.56 million (Target)	62.50%
£6.4 million or higher (Stretch)	100%

10% of the awards are subject to a Group Cash flow performance condition for the year ended 31 March 2019 as shown below:

Cash Outflow for the Performance Period	Extent to which Performance Condition satisfied
Above £24.6 million	0%
£24.6 million (Threshold)	25%
£19.5 million (Target)	62.50%
£14.4 million or lower (Stretch)	100%

10% of the awards are subject to a group weighted average NPS score for the year ended 31 March 2019 as shown below:

Group weighted average NPS for the Performance Period	Extent to which Performance Condition satisfied
Below +70	0%
+70 (Threshold)	25%
+75 (Target)	62.5%
+80 or higher (Stretch)	100%

The final 10% of awards are subject to the satisfactory launch of the Group's "Purpose" and is determined by the Remuneration Committee.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the SIP.

	2019 No. of options	**2019 WAEP(£)***	2018 No. of options	2018 WAEP(£)*
Outstanding at the beginning of the year				–
Granted during the year	**5,047,312**	**–**	–	–
Forfeited during the year	**(778,145)**	**–**	–	–
Outstanding at the end of the year	**4,269,168**	**–**	–	–

The weighted average fair value of options granted during the year was £1.01. For the shares outstanding at 31 March 2019, the remaining average contractual life is 2.3 years.

There were no awards exercisable as at 31 March 2019.

31. Share-based payments continued

AO Sharesave scheme (referred to as SAYE scheme)

The Group has a savings-related share option plan under which employees save on a monthly basis, over a three year period, towards the purchase of shares at a fixed price determined when the option is granted. The price is set at a discount being 20% of the average share price during a specified averaging period prior to the grant date. The option must be exercised within six months of maturity of the SAYE contract, otherwise it lapses.

As per IFRS 2, these grants have been valued using a binomial (2015) and a Black-Scholes (2016, 2017, 2018 and 2019) model. The difference in valuations for the 2015 scheme between the binomial and Black-Scholes model is not significant.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the Sharesave scheme:

	2019 No. of options	**2019 WAEP(£)***	2018 No. of options	2018 WAEP(£)*
Outstanding at the beginning of the year	**2,288,418**	**1.01**	1,479,535	1.54
Granted during the year	**885,016**	**0.98**	1,946,887	0.89
Forfeited during the year	**(159,383)**	**0.82**	(935,453)	1.32
Lapsed during the year	**(93,980)**	**2.27**	(202,551)	0.26
Outstanding at the end of the year	**2,920,071**	**0.97**	2,288,418	1.01

* Weighted average exercise price.

During the year ended 31 March 2019, options were granted on 22 January 2019. For the shares outstanding at 31 March 2019, the remaining weighted average contractual life is 1.92 years (2018: 2.49 years). The weighted average fair value of options granted during the year was £0.97 per share.

The following table gives the assumptions made during the year ended 31 March 2019:

For options granted on	30 January 2015	29 January 2016	1 March 2017	1 February 2018	22 January 2019
Risk-free rate	0.64%	0.54%	0.41%	0.79%	0.79%
Expected volatility	24.74%	43.53%	49.9%	46.5%	46.5%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Option life	3 years	3 years	3 years	3 years	3 years

Expected volatility under both the LTIP and the SAYE schemes was calculated by using the historical daily share price data of the constituent companies of the FTSE 250 index over the previous three years.

32. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

	2019 £m	2018 £m
Within one year	**18.0**	16.1
In the second to fifth years inclusive	**48.8**	48.8
After five years	**27.7**	31.2
	94.5	96.1

During the year to 31 March 2019, £13.3m (2018: £15.7m) was recognised as an expense in the income statement in respect of operating leases.

Operating leases principally represent rentals in respect of motor vehicles, office buildings and warehouse properties.

33. Retirement benefit schemes

Defined contribution schemes

The pension cost charge for the year represents contributions payable by the Group and amounted to £4.9m (2018: £3.7m).

Contributions totalling £0.5m (2018: £0.3m) were payable at the end of the year and are included in accruals.

34. Financial instruments

a) Fair values of financial instruments

Receivables and payables

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in Notes 22 and 24, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in Note 3.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount.

Call and put option

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited in 2016) are based upon an independent valuation at the year-end using the Monte Carlo model.

The carrying value of the put option is based on an estimate of the maximum amount payable over the life of the option based on discounted future cash flows.

Borrowings

The fair value of interest-bearing borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of inception.

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are as follows:

	2019 Carrying amount £m	2019 Fair value £m	2018 Carrying amount £m	2018 Fair value £m
Financial assets designated as fair value through profit or loss				
Accrued income (see Note 22)	**155.4**	**155.4**	61.9	61.9
Call option	**0.8**	**0.8**	2.4	2.4
Loans and receivables				
Cash and cash equivalents	**28.9**	**28.9**	56.0	56.0
Trade receivables (see Note 22)	**12.9**	**12.9**	8.7	8.7
Prepayments and other receivables (see Note 22)	**29.2**	**29.2**	32.2	32.2
Total financial assets	**227.2**	**227.2**	161.2	161.2
Financial liabilities measured at amortised cost				
Bank overdraft	**–**	**–**	(3.1)	(3.1)
Trade payables (see Note 24)	**(142.2)**	**(142.2)**	(118.4)	(118.4)
Other payables (see Note 24)	**(94.9)**	**(94.9)**	(37.6)	(37.6)
Borrowings (see Note 25)	**(38.0)**	**(38.0)**	(14.6)	(14.6)
Financial liabilities at fair value through profit and loss				
Put option to acquire non-controlling interest	**(3.6)**	**–**	(3.8)	–
Total financial liabilities	**(278.6)**	**(275.0)**	(177.5)	(173.7)
Total financial instruments	**(51.4)**	**(47.8)**	(16.3)	(12.5)

The table below shows the movement in valuation for both the call and put option during the year.

Call option	£m
At 1 April 2017	1.3
Change in valuation	1.1
At 31 March 2018	2.4
Exercised in the year	(0.2)
Change in valuation	(1.4)
At 31 March 2019	**0.8**

Put option	£m
At 1 April 2017	3.4
Change in valuation	0.4
At 31 March 2018	3.8
Exercised in the year	(0.4)
Unwind of discount	0.3
Change in valuation	(0.1)
At 31 March 2019	**3.6**

AO World Plc subscribed for 300 shares (60%) of AO Recycling Limited in November 2015 for £3 with the remaining 200 shares (40%) being retained by the founders of AO Recycling Limited. AO World Plc also entered into a put and call option agreement in relation to the remaining shares held by the founders, which provides for their shares to be bought/sold in five separate tranches under five put and call options to be exercised following the approval of the AO Recycling Limited accounts for the financial years ending 31 March 2018 to 31 March 2022 inclusive. This is subject to certain performance conditions, mainly EBITDA performance.

As set out in Note 29, AO group exercised its option over the first tranche of shares and as a result acquired a further 7.2% of the issued share capital of AO Recycling Limited for consideration of £0.4m

Fair value hierarchy

Financial instruments are measured at fair value and are split into a fair value hierarchy based on the valuation technique used to determine fair value. The hierarchies are;

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

34. Financial instruments continued

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At 1 April 2018				
Accrued income (see Note 22)	–	–	155.4	155.4
Call option	–	–	0.8	0.8
At 31 March 2019			**156.2**	**156.2**
At 1 April 2017				
Accrued income (see Note 22)	–	–	61.9	61.9
Call option	–	–	2.4	2.4
At 31 March 2018	–	–	64.3	64.3

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At 1 April 2018				
Put option to acquire non-controlling interest	–	–	3.6	3.6
At 31 March 2019	**–**	**–**	**3.6**	**3.6**
At 1 April 2017				
Put option to acquire non-controlling interest	–	–	3.8	3.8
At 31 March 2018	–	–	3.8	3.8

The fair value hierarchy for the call and put options is consistent for both the Group and parent Company.

b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, with a maximum exposure equal to the book value of these assets.

The Group's receivable balance primarily comprises accrued income representing the expected future commission payments in relation to the product protection plans sold by the Group on behalf of one customer and network commissions based on contracts sold on behalf of Mobile Network Operators. The Directors have assessed and considered the credit risk in respect of this amount and do not consider it to be significant. The Group's trade receivable balances comprise a number of individually small amounts from unrelated customers over a number of geographical areas. Concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

Exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date by class of financial instrument was:

	2019 £m	2018 £m
Accrued income	**155.4**	61.9
Trade receivables	**12.9**	8.7
	168.3	70.6

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross £m	Net £m
Not past due	11.9	11.9
Past due 0–30 days	0.7	0.7
Past due 31–120 days	0.3	0.3
More than 120 days	0.0	0.0
At 31 March 2019	**12.9**	**12.9**
Not past due	8.5	8.5
Past due 0–30 days	0.2	0.2
Past due 31–120 days	–	–
More than 120 days	–	–
At 31 March 2018	8.7	8.7

There has been no impairment charged to trade receivables in the current year (2018: £nil).

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. In applying this policy the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements. Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	In more than 5 years £m
Non-derivative financial liabilities					
Finance lease liabilities	7.6	7.9	3.0	4.9	–
Trade and other payables	228.9	228.9	220.1	8.8	–
Bank loans	30.4	30.4	9.2	21.2	–
At 31 March 2019	**266.9**	**267.2**	**232.3**	**34.9**	**–**

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	In more than 5 years £m
Non-derivative financial liabilities					
Finance lease liabilities	10.0	10.7	3.4	7.3	–
Trade and other payables	149.1	149.1	149.1	–	–
Bank loans	4.6	4.6	1.2	3.4	–
At 31 March 2018	163.7	164.4	153.7	10.7	–

34. Financial instruments continued

d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments (and hence no sensitivity analysis is performed).

Foreign currency risk

Refer to Note 34f.

Interest rate risk

The principal interest rate risks of the Group arise in respect of borrowings. As the interest expense on variable rate financial instruments is immaterial, the Group does not actively manage the exposure to this risk.

At the statement of financial position date the interest rate profile of the Group's interest-bearing financial instruments was:

	2019 £m	2018 £m
Fixed and variable rate instruments		
Fixed rate	**11.0**	13.8
Variable rate	**27.0**	0.8
	38.0	14.6

If interest rates increased by 1%, there would be an impact on the finance cost approximately £0.3m.

e) Capital management

It is the Group's policy to maintain an appropriate equity capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of net cash, borrowings (disclosed in Note 23) and equity of the Group. The Group is not subject to any externally imposed capital requirements. In addition, as set out in Note 23, AO Limited a direct subsidiary of AO World Plc and the holding company of AO Retail Limited and Expert Logistics Limited, has access to a £60m Revolving Credit Facility which expires in June 2021.

The Board has delegated responsibility for routine capital expenditure to the management of the business. All significant expenditure is approved by the Board.

f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, consequently exposure to exchange rate fluctuations arise.

The Group's presentational currency is sterling; as a result the Group is exposed to foreign currency translation risk due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Euros	**136.0**	103.5	**40.8**	11.6

The balances shown above include intercompany loan balances held between Group companies which create a foreign currency exposure to the income statement. These differences are recognised in finance income or costs.

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

	Euro currency impact	
	2019 £m	2018 £m
Sterling strengthens by 10%	**(9.5)**	(8.4)
Sterling weakens by 10%	**8.7**	10.2

The Group's sensitivity to foreign currency has increased during the current year due to increasing trade in Europe. The impact above is mainly as a result of intercompany loans held in a foreign currency. The impact of foreign exchange movements in the current year are set out in Note 10.

In management opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

35. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

Transactions with Directors and key management personnel

The compensation of key management personnel (including the Directors) is as follows:

	2019 £m	2018 £m
Key management emoluments including social security costs	**3.7**	4.1
Awards granted under a long-term incentive plan	**3.0**	2.6
Company contributions to money purchase plans	**0.1**	0.3
	6.8	7.0

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 86 to 92.

In the previous year, on 3 April 2017, the Company completed a placing of new shares (37,735,849) to raise £50.0m to suitably capitalise the business to support continued growth. The table below shows the shares subscribed for by Directors of the Company.

	Number	Value £
Steve Caunce	1,509,433	2,000,000
John Roberts	1,509,433	2,000,000
Mark Higgins	3,773	5,000
Chris Hopkinson	754,716	1,000,000

All are related as they are Directors of AO World Plc.

36. Acquisition of subsidiaries

Acquisition of Mobile Phones Direct Limited

On 17 December 2018, the Group acquired all of the ordinary shares in Mobile Phones Direct Limited for £39.6m, satisfied in cash and the issue of shares in AO World Plc. The Company is the leading pure-play online retailer of mobile phones and network airtime contracts and the acquisition adds a significant complementary category to the existing AO Group's offering. In the period from acquisition to 31 March 2019 the subsidiary contributed profit before tax of £1.4m to the consolidated loss before tax for the year. If the acquisition had occurred on the first day of the accounting period, Group revenue would have been £1bn and loss before tax would have been £15.8m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of accounting period.

The acquisition had the following effect on the Group's assets and liabilities.

£m	Book value	Fair value adjustments	Fair value of assets/ (liabilities) acquired
Tangible fixed assets	0.2	–	0.2
Intangible fixed assets	0.4	15.9	16.3
Inventory	6.6	(0.1)	6.5
Trade Receivables	0.7	(0.1)	0.6
Prepayments and accrued income	83.9	(2.6)	81.3
Cash	15.8	–	15.8
Trade payables	(29.4)	–	(29.4)
Corporation tax	(0.3)	0.5	0.2
Deferred tax	–	(2.7)	(2.7)
Other creditors	(50.9)	(1.0)	(51.8)
Accruals and deferred income	(2.3)	(0.1)	(2.4)
Provisions	(7.4)	(1.6)	(9.0)
	17.3	8.2	25.5
Purchase consideration			39.6
Residual goodwill			14.1

Purchase consideration comprised:

	£m
Cash	21.8
Fair value of shares issued	17.8
Total consideration	39.6

As set out in Note 28, the Company issued 13,095,104 shares to the sellers of Mobile Phones Direct Limited as part of the consideration. The fair value of the shares was determined with reference to the average share price of AO World Plc shares over the five day period prior to the signing of the sale and purchase agreement. The fair value price was £1.3616.

The net cash flow from the acquisition is as follows:

	£m
Cash consideration	21.8
Less: cash acquired with the business	(15.8)
Net cash on acquisition of subsidiary	5.9

Goodwill has arisen on the acquisition primarily because of the value in relation to the relationships with the mobile networks, which, as not separable from the business, cannot be treated as acquired intangible assets. In addition, no value is attributable to future synergies in the identifiable assets acquired.

Fair values determined on a provisional basis

The fair value adjustments noted above have been determined on a provisional basis and in line with relevant accounting standards will be finalised in the 12 month hindsight period. The main fair value adjustments relate to: the recognition of intangible fixed assets (and the associated deferred tax liability) not previously recognised by MPD in relation to marketing assets, customer assets and technology assets; a reassessment of the recoverability of accrued income; and the reassessment of the level of clawback provision required in relation to disconnected contracts.

Acquisition related costs

The Group incurred acquisition related cost of £2.6m related to adviser fees. These costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income and due to their size have been added back as exceptional items in arriving at Adjusted EBITDA (see Note 6).

Company statement of financial position

As at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	4	**0.7**	0.7
Property, plant and equipment	5	**3.5**	2.6
Investment in subsidiaries	3	**82.3**	63.1
Deferred tax asset	7	**1.4**	0.8
Derivative financial asset	11	**0.8**	2.2
		88.6	69.4
Current assets			
Corporation tax receivable		**0.3**	0.2
Derivative financial asset	11	**–**	0.2
Trade and other receivables	8	**104.6**	74.7
Cash at bank and in hand		**–**	8.6
		104.9	83.7
Total assets		**193.5**	153.1
Current liabilities			
Bank overdraft		**(2.9)**	–
Derivative financial liability		**(0.2)**	–
Trade and other payables	9	**(80.6)**	(60.8)
Borrowings	10	**(0.3)**	(0.3)
		(84.1)	(61.1)
Net current assets		**20.8**	22.6
Non-current liabilities			
Borrowings	10	**(0.2)**	(0.6)
Derivative financial liability	11	**(0.7)**	–
Total liabilities		**(84.9)**	(61.7)
Net assets		**108.5**	91.4
Equity			
Share capital	12	**1.2**	1.1
Share premium	12	**103.7**	103.7
Merger reserve		**22.2**	4.4
Capital redemption reserve		**0.5**	0.5
Share-based payments reserve		**13.1**	9.1
Other reserves		**(0.2)**	–
Retained losses		**(32.0)**	(27.4)
Total equity		**108.5**	91.4

The financial statements of AO World Plc, registered number 05525751, were approved by the Board of Directors and authorised for issue on 3 June 2019. They were signed on its behalf by:

John Roberts
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Company statement of changes in equity

As at 31 March 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Other reserves £m	Retained losses £m	Total £m
At 1 April 2017	1.1	55.7	4.4	0.5	3.8	–	(2.6)	62.9
Loss for the year	–	–	–	–	–	–	(24.9)	(24.9)
Issue of shares (net of expenses)	–	48.0	–	–	–	–	–	48.0
Share-based payments charge net of tax (see Note 31 of consolidated accounts)	–	–	–	–	5.4	–	–	5.4
Transfer between reserves (see note 31 of consolidated accounts)	–	–	–	–	(0.1)	–	0.1	–
Balance at 31 March 2018	**1.1**	**103.7**	**4.4**	**0.5**	**9.1**	**–**	**(27.4)**	**91.4**
Loss for the year	–	–	–	–	–	–	(4.6)	(4.6)
Issue of shares (net of expenses)	–	–	17.8	–	–	–	–	17.8
Share-based payments charge net of tax (see Note 31 of consolidated accounts)	–	–	–	–	4.0	–	–	4.0
Acquisition of shares in non-controlling interest	–	–	–	–	–	(0.2)	–	(0.2)
Balance at 31 March 2019	**1.2**	**103.7**	**22.2**	**0.5**	**13.1**	**(0.2)**	**(32.0)**	**108.5**

1. Basis of preparation and accounting policies

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

Under section s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
— a Cash Flow Statement and related notes;
— comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
— disclosures in respect of transactions with wholly owned subsidiaries;
— disclosures in respect of capital management;
— the effects of new but not yet effective IFRSs;
— disclosures in respect of the compensation of key management personnel; and
— disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
— IFRS 2 Share Based Payments in respect of Group-settled share-based payments;
— certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
— certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Other accounting policies
For other accounting policies, please refer to the Group accounting policies on page 113.

2. Operating profit/(loss)

The Auditor's remuneration for audit and other services is disclosed in Note 9 to the consolidated financial statements.

3. Investment in subsidiaries

	2019 £m	2018 £m
Cost at 31 March 2018	**63.1**	12.2
Additions	**18.2**	50.0
Group share-based payments	**1.0**	0.9
Cost at 31 March 2019	**82.3**	63.1

The additions in the current year relates to:
i. the acquisition of further shares in AO Recycling Limited for £0.4m following the exercise of the first tranche of options put in place on the original acquisition in 2015; and
ii. the acquisition of further shares in AO Limited in exchange for loan notes issued by AO Limited to the vendors of Mobile Phones Direct Limited. £17.8m. The loan notes were exchanged for new shares in AO World plc.

In addition, the Company has made capital contributions to its subsidiaries of £1.0m (2018: £0.9m) in relation to the allocation of share-based payment charges.

4. Intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 31 March 2018	1.2	0.8	2.0
Additions	–	0.2	0.2
At 31 March 2019	1.2	1.0	2.2
Amortisation			
At 31 March 2018	0.8	0.5	1.3
Charge for the year	0.1	0.2	0.3
At 31 March 2019	0.9	0.7	1.5
Carrying amount			
At 31 March 2019	**0.3**	**0.4**	**0.7**
At 31 March 2018	0.4	0.3	0.7

Amortisation is charged to administrative costs in the income statement.

5. Property, plant and equipment

	Computer and office equipment £m	Leasehold improvements £m	Total £m
Cost			
At 31 March 2018	1.0	2.3	3.3
Additions	1.3	0.4	1.7
At 31 March 2019	2.3	2.7	5.0
Accumulated depreciation			
At 31 March 2018	0.6	0.1	0.7
Charge for the year	0.3	0.5	0.8
At 31 March 2019	0.9	0.6	1.5
Carrying amount			
At 31 March 2019	**1.4**	**2.1**	**3.5**
At 31 March 2018	0.4	2.2	2.6

6. Subsidiaries

Details of the Company's subsidiaries at 31 March 2019 are as follows:

Name of subsidiary	Principal place of business	Class of Shares Held	Proportion of ownership interests and voting rights held by AO World Plc	Principal activity
AO Retail Limited	United Kingdom	Ordinary	100%**	Retail
Expert Logistics Limited	United Kingdom	Ordinary	100%**	Logistics and transport
Worry Free Limited	United Kingdom	Ordinary	100%	Dormant
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Limited	United Kingdom	Ordinary	100%	Dormant
AO Deutschland Limited	Germany	Ordinary	100%	Retail
AO Limited	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99%*	Dormant
AO.NL BV	Netherlands	Ordinary	100%	Retail
AO Logistics (Netherlands) BV	Netherlands	Ordinary	100%	Logistics and transport
AO Recycling Limited	United Kingdom	Ordinary	67.2%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	60%	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	60%	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
Mobile Phones Direct Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100%**	Retail
BERE Limited	Jersey	Ordinary and redeemable preference share	100%	Investment company

* 0.01% of the investment in AO.BE SA was held in AO Deutschland.
** Indirectly owned by AO Limited.

All companies within the Group are registered at the same address disclosed on page 143 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

BERE Ltd	AO.NL BV	AO Logistics (Netherlands) BV	AO.BE SA	Elekdirect Limited
44 Esplanade St Helier Jersey JE4 9WG	Nijverheidsweg 33 Utrecht The Netherlands	Nijverheidsweg 33 Utrecht The Netherlands	Naamloze Vennootschap Esplanade Heysel 1 Bus 94 1020 Brussels	Unit G/G 14-16 Gilnow Mill Industrial Estate Spa Road Bolton BL1 4SF

7. Deferred tax

The following is the asset recognised by the Company and movements thereon during the current and prior reporting year.

	Other timing difference £m	Share options £m	Losses and unused tax £m	Total £m
Deferred tax asset at 1 April 2017	**0.1**	**0.7**	**–**	**0.8**
Credit to income statement	(0.1)	0.1	–	–
Deferred tax asset at 31 March 2018	**–**	**0.8**	**–**	**0.8**
Credit to income statement	0.2	0.2	0.2	0.6
Deferred tax asset at 31 March 2019	**0.2**	**1.0**	**0.2**	**1.4**

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company has an unrecognised deferred tax asset of £nil (2018: £0.1m) in respect of share options.

8. Trade and other receivables

	2019 £m	2018 £m
Prepayments	**0.6**	0.5
Other receivables	**0.2**	0.5
Amounts owed by Group undertakings	**103.8**	73.7
	104.6	74.7

Amounts owed by Group undertakings are repayable on demand and carry no interest.

9. Trade and other payables

	2019 £m	2018 £m
Trade payables	**1.3**	0.9
Accruals	**5.2**	4.9
Other payables	**0.9**	0.5
Amounts owed to Group undertakings	**73.2**	54.5
	80.6	60.8

The carrying amount of trade payables approximates to their fair value.

Amounts owed to Group undertakings are payable on demand and carry no interest

10. Borrowings

	2019 £m	2018 £m
Secured borrowing at amortised cost		
Bank loans	**0.6**	0.9
Total borrowings	**0.6**	0.9
Amount due for settlement within 12 months	**0.3**	0.3
Amount due for settlement after 12 months	**0.2**	0.6
Total borrowings	**0.6**	0.9

Bank loans interest rates range from 4.3%–4.6% with all loans maturing in the financial period ending 31 March 2021.

Movements in the year were as follows:

	Bank loans £m
Balance at 1 April 2018	0.9
Changes from financing cash flows	
Proceeds from loans and borrowings	–
Repayment of borrowings	(0.3)
Total changes from financing cash flows	(0.3)
Total other changes	–
Balance at 31 March 2019	**0.6**

11. Derivative financial assets and liabilities

The movement in the valuation of the call and put options issued on the acquisition of AO Recycling Limited is as follows.

Call option	£m
At 1 April 2017	1.3
Change in valuation	1.1
At 31 March 2018	2.4
Exercised in the year	(0.2)
Change in valuation	(1.5)
At 31 March 2019	**0.8**

Put option	£m
At 1 April 2017	0.5
Change in valuation	(0.5)
At 31 March 2018	–
Change in valuation	(0.9)
At 31 March 2019	**(0.9)**

12. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m	Merger reserve £m
At 1 April 2018	458.8	1.1	103.7	4.4
Share Issue	13.1	0.1	–	17.8
At 31 March 2019	**471.9**	**1.2**	**103.7**	**22.2**

On 17 December 2018, the Company issued 13,095,104 ordinary shares in the Company to the vendors of Mobile Phones Direct Limited. The shares were issued at a premium of £1.359 per share to arrive at the fair value of the share consideration paid to the owners of Mobile Phones Direct Limited. In accordance with Section 612 of the Companies Act 2006, the premium has been taken to merger reserve.

13. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

	2019 £m	2018 £m
Within one year	**1.1**	0.8
In the second to fifth years inclusive	**4.3**	3.2
After five years	**5.0**	4.6
	10.4	8.6

During the year, £0.4m was recognised as an expense in the income statement in respect of operating leases. The operating lease relates to land and buildings.

14. Share-based payments

The Company recognised total expenses of £3.0m (2018: £4.6m) in the year in relation to both the Performance Share Plan (referred to as LTIP) and the AO Sharesave scheme (referred to as SAYE). Details of both schemes are described in Note 31 to the consolidated financial statements.

15. Related parties

During the year the Company entered into transactions with non-wholly owned Group entities as follows:

	2019 £m	2018 £m
Administration cost recharged to AO Recycling Limited	**–**	0.1

At 31 March 2019, the balance outstanding with AO Recycling Limited was £1.5m (2018: £3.7m).

Important information

Registered office and headquarters
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Bolton BL6 4SD

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Web: ao-world.com

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Julie Finnemore
Email: cosec@ao.com

Joint Stockbrokers
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Canary Wharf
London E14 5JP

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Vintners Place
68 Upper Thames Street
London EC3V 3BJ

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Independent Auditor
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1 St Peter's Square
Manchester
M2 3AE

Bankers
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Manchester M60 2AU

Lloyds Bank Plc
25 Gresham Street
London EC2V 7HN

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(calls cost 12p per minute plus phone company's access charge)

Tel INTL: +44 (0) 371 664 0300
(calls charged at the applicable international rate)

Lines are open 9.00 am to 5.30 pm Monday to Friday excluding public holidays in England and Wales.

Web: www.linkassetservices.com
Email: shareholder.services@link.co.uk

Enquiring about your shareholding
If you want to ask, or need any information, about your shareholding, please contact our registrar (see contact details in the opposite column). Alternatively, if you have internet access, you can access the Group's shareholder portal via www.aoshareportal.com where you can view and manage all aspects of your shareholding securely.

Investor relations website
The investor relations section of our website, www.ao-world.com, provides further information for anyone interested in AO. In addition to the Annual Report and share price, Company announcements, including the full year results announcements and associated presentations, are also published there.

Share dealing service
You can buy or sell the Company's shares in a simple and convenient way via the Link share dealing service either online (www.linksharedeal.com) or by telephone (0371 664 0445). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK are charged at the applicable international rate. Lines are open between 8 am and 4.30 pm, Monday to Friday excluding public holidays in England and Wales.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares in the Company. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Cautionary note regarding forward-looking statements
Certain statements made in this report are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. They appear in a number of places throughout this Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business. Persons receiving this Report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, AO does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Glossary

4Cs strategy means how we will achieve our mission to become the best electrical retailer in Europe, through focusing on culture and brand, customers, competencies and countries

Adjusted EBITDA means Profit/(loss) before tax, depreciation, amortisation, net finance costs, "adjustments" and exceptional items

Adjustments means set-up costs relating to overseas expansion, share-based payment charges/(credits) attributable to exceptional LTIP awards and exceptional restructuring costs which the Board considers one-off in nature

AGM means the Group's Annual General Meeting

An AOer means a member of our amazing employees

AO World, AO or the Group means AO World Plc and its subsidiary undertakings

AV means audio visual products

B2B means business to business

B2C means business to consumer

Board means the Board of Directors of the Company or its subsidiaries from time to time as the context may require

Code means the UK Corporate Governance code published by the FRC in 2016

Companies Act means the Companies Act 2006

Company means AO World Plc, a company incorporated in England and Wales with registered number 05525751 whose registered office is at 5A The Parklands, Lostock BL6 4SD

CRM means customer relationship management

CRR means Corporate Risk Register

D&G means Domestic and General

DofE means Duke of Edinburgh scheme

EPS means earnings per share

ERP means the AO Employee Reward Plan

Europe means the Group's entities operating within the European Union, but outside the UK

FY18 means the financial year of the Company ended 31 March 2018

FY19 means the financial year of the Company ended 31 March 2019

GAAP means Generally Accepted Accounting Practice

GHG means greenhouse gas

IAS means International Accounting Standards

IFRS means International Financial Reporting Standards

IPO means the Group's Initial Public Offering in March 2014

KPMG means KPMG LLP

LSE means London Stock Exchange

LTIP means Long-term Incentive Plan

MDA means major domestic appliances

MyAO means AO's app

NPS means Net Promoter Score which is an industry measure of customer loyalty and satisfaction

PSP means the AO Performance Share Plan, a form of LTIP

RDC means regional distribution centre

RMC means our Risk Management Committee

SDA means small domestic appliances

SEO means Search Engine Optimisation

SG&A means Selling, General & Administrative Expenses

SID means Senior Independent Director

SKUs means stock keeping units

UK means the Group's entities operating within the United Kingdom

WEEE means Waste Electrical and Electronic Equipment

There's lots more online:

UK sites:
Customer
www.ao.com

Corporate
www.ao-world.com

German site:
Customer
www.ao.de

The Netherlands site:
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